

2003
ANNUAL REPORT

 **Boston Pizza®**

ROYALTIES INCOME FUND



AR74

it's about performance

glossary of terms

Fund Boston Pizza Royalties Income Fund

Partnership Boston Pizza Royalties Limited Partnership

BPI Boston Pizza International Inc.

Gross Sales / System Sales Gross revenue generated from Boston Pizza restaurants across Canada

Franchise Sales Gross revenue generated from Boston Pizza restaurants across Canada, less sales generated from alcohol, tobacco and Boston Pizza International Inc. approved national promotions and discounts

Sales Growth The increase in gross revenue generated from Boston Pizza restaurants across Canada over a previous period

SSSG Same store sales growth - refers to the overall increase in gross sales of Boston Pizza restaurants that have been opened for a minimum of 24 months

Full Service Restaurants Establishments that may sell alcoholic beverages, provide take-out services, operate a bar, or present live entertainment in addition to serving food and non-alcoholic beverages. This industry includes full-service establishments known as fine-dining restaurants, family restaurants and restaurant-bars.

Source: Statistics
Canada.



Casual Dining \$10-\$20 average cheque, full table service, themed atmosphere, generally little take-out service

CRFA Canadian Restaurant and Foodservices Association

Fiscal Year **As it applies to the Fund**, for 2002 means July 17 to December 31, after January 1, 2003 it means January 1 to December 31.

As it applies to BPI, prior to 2002 it means September 1 to August 31, after September 1, 2002 it means for the remainder of calendar 2002, after January 1, 2003 it means January 1 to December 31.

Royalty Pool In any period, those Boston Pizza restaurants on which royalty equating to 4% of franchise sales/revenue is to be paid to the Fund.

IPO Initial Public Offering - date July 17, 2002

Non-Controlling Interest BPI's indirect interest in the Fund.

20-day Weighted Average Unit Price As at any date or for any period, the weighted average price at which the Units have traded on a Stock Exchange during the period of 20 consecutive trading days ending on the fifth trading day before such date or the end of the period. The weighed average price is defined as the amount obtained by dividing the aggregate sale price of all of the Units traded on the relevant Stock Exchange during such period divided by the total number of Units so traded.

BP Rights (a) All rights in Canada to certain registered trademarks and pending applications for trademarks, including "Boston Pizza", "BP & Design", "BP's Lounge", "BP's Bistro", "Boston's The Gourmet Pizza", "Boston Pizza Quick Express", "Boston Pizza Restaurant & Sports Bar".

(b) All rights in Canada in certain unregistered trademarks and trade names used in the business of BPI; and **(c)** Certain goodwill associated with the items referenced in (a) and (b) above.

contents

Wingspear Business Reference Library
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

- 02 LETTER FROM THE CHAIRMAN
OF BOSTON PIZZA ROYALTIES INCOME FUND
- 03 LETTER FROM THE CHIEF EXECUTIVE OFFICER
OF BOSTON PIZZA INTERNATIONAL INC
- 04 STABILITY
- 06 GROWTH
- 08 CANADA'S #1 CASUAL DINING BRAND

Boston Pizza Royalties Income Fund

- 10 MANAGEMENT DISCUSSION AND ANALYSIS
- 17 AUDITOR'S REPORT
- 18 CONSOLIDATED BALANCE SHEET
- 19 CONSOLIDATED STATEMENT OF EARNINGS
- 19 CONSOLIDATED STATEMENT OF
UNITHOLDERS' EQUITY
- 20 CONSOLIDATED STATEMENT
OF CASH FLOWS
- 21 NOTES TO CONSOLIDATED
STATEMENTS

Boston Pizza International Inc.

- 28 MANAGEMENT DISCUSSION AND ANALYSIS
- 33 AUDITOR'S REPORT
- 34 CONSOLIDATED BALANCE SHEET
- 35 CONSOLIDATED STATEMENT OF OPERATIONS
AND RETAINED EARNINGS (DEFICIT)
- 36 CONSOLIDATED STATEMENT OF CASH FLOWS
- 37 NOTES TO CONSOLIDATED STATEMENTS



Letter from the Chairman of Boston Pizza Royalties Income Fund

On behalf of the Trustees of the Boston Pizza Royalties Income Fund ("the Fund"), I am pleased to present our second Annual Report. As the Fund's initial public offering was on July 17, 2002, this is the Fund's first full fiscal year and covers the period January 1, 2003 to December 31, 2003 (the "Period"). These results are also available on our website at www.bpincomefund.com. We encourage you to visit the website to view the latest developments of the Fund.

Highlights

2003 was a very positive year for the Fund. Due to the positive same store sales growth ("SSSG") of 4.1% achieved by Boston Pizza restaurants during the Period, we were able to provide Unitholders with two increases in monthly distributions. In 2003 the unit price of the Fund increased from a closing price of \$10.12 on January 2 to a closing price of \$11.98 on December 31.

Despite some very challenging factors faced by foodservice operators, Boston Pizza posted positive growth in 2003 opening 15 new Boston Pizza restaurants, with no closures, renovating 18 restaurants, and relocating 2 restaurants to improved sites. The combination of SSSG, new store openings, Boston Pizza International's ("BPI") unique renovation program, and relocated restaurants contributed to overall sales growth in 2003 of 11.4%. As a comparison the full-service restaurant sector saw overall sales growth of 1.9%² in 2003 as reported by the CRFA.

For the Period, the Fund received royalty income of \$11,454,561 from BPI. Interest income was \$1,803,434. Expenses, made up primarily of general and administrative and interest expense, amounted to \$874,580.

The Fund's net earnings, after Non-Controlling Interest – which represents BPI's indirect interest in the Fund – were \$8,174,562 or \$1.0392 per unit. The Fund declared aggregate distributions of \$8,071,417 or \$1.0200 per unit.

Outlook

Going forward BPI management continues to focus on opening new stores and delivering industry-leading SSSG. In 2004, BPI anticipates that approximately 15 new locations will open across Canada further enhancing the Boston Pizza brand. SSSG, the primary metric for growth of the Fund, will be achieved through executing effective national and local marketing promotions, superior customer service, and Boston Pizza's unique renovation program, which requires each Boston Pizza location conduct a full renovation every seven years. In 2004, 15 renovations are planned. Historically SSSG for renovated locations has been between 10-15% post renovation.

BPI management believes that these initiatives will enhance Boston Pizza's efforts to develop new markets while continuing to strengthen Boston Pizza's position as Canada's number one casual dining brand. With 181 restaurants stretching from Victoria to Halifax, Boston Pizza has more locations and serves more customers annually than any other casual dining destination in Canada.

The Board of Trustees will periodically review distribution levels and our criteria will continue to be to distribute all available cash in order to maximize returns to Unitholders. Any changes to distributions will be implemented, to the extent possible, in a manner that will allow the Fund to maintain the uniformity of distributions while, at the same time, not utilizing the \$1 million credit facility available to the Partnership.

In closing, I would like to take this opportunity to thank each Unitholder for your continued support and for the confidence you have demonstrated by investing in the Fund.

On behalf of the Board of Trustees,



JOHN COWPERTHWAITHE
Chairman, Boston Pizza Royalties Income Fund

¹ Any further references to the Fund refer to the Fund and its subsidiaries, as the financial results presented in this annual report are presented on a consolidated basis.
² Source: CRFA

Letter from the Chief Executive Officer of Boston Pizza International Inc.

On behalf of Boston Pizza International Inc. ("BPI"), its board of directors, management team and employees, I am pleased to present our 2003 Annual Report. This report covers the fiscal period of January 1, 2003 to December 31, 2003 (the "Period").

Highlights

Despite the challenges that foodservice operators faced, BPI posted positive growth in 2003. The results we achieved outperformed both the foodservice industry as a whole and the casual dining sector. For the Period, BPI posted industry-leading overall sales growth of 11.4%, while the full-service restaurant sector achieved overall sales growth of 1.9% as reported by the CRFA. Overall sales growth is achieved through new store openings and same store sales growth ("SSSG"). We are pleased to report that our SSSG, a key performance indicator of the ongoing growth of our brand, was 4.1% for 2003. BPI's earnings before income taxes for the Period were \$1,615,618.

In 2003, Boston Pizza franchisees continued to open new locations. During the Period, 15 new Boston Pizza restaurants were opened and no restaurants were closed, which demonstrates the appeal of our product offering, the strength of our brand, and the viability of our business model.

These impressive statistics are difficult to achieve in the competitive environment of the restaurant sector and they are a testament to the mix of quality service and business discipline that Boston Pizza franchisees deliver. However, we recognize that our customers' overall experience in our restaurants can always be improved. To that end, our operations team continued to review and improve our menu, enhanced our franchisee training, and increased the level of field support. Boston Pizza also continued its unique renovation program renovating a total of 18 locations. Two locations were relocated to superior sites. Boston Pizza's renovation program is especially significant to Unitholders of the Fund as the SSSG for renovated and relocated locations has historically been on average 10-15% post renovation.

Business Strategy

Boston Pizza continued to increase its market share and remains Canada's number one casual dining brand. This was accomplished by continuing to focus on three

strategic priorities that are the foundation for all strategic decision-making. They are what we refer to as our "Three Pillars" strategy.

- **The commitment to franchisee profitability**
- **The commitment to continually enhance the Boston Pizza brand**
- **The commitment to continually improve the customer experience**

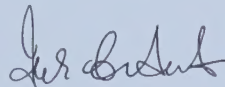
Outlook

We believe that 2004 will be another industry-leading year for our organization. We anticipate that approximately 15 new Boston Pizza restaurants will open across Canada in 2004. A majority of these openings will occur in Eastern Canada, supporting our continued efforts to raise the profile of the Boston Pizza brand in Eastern Canada. Boston Pizza will continue its unique renovation program that requires each location to renovate every seven years. In 2004, 15 renovations are planned.

Our management further believes that in 2004 the organization can continue to deliver on the most important metric to Unitholders of the Fund, namely SSSG. Through strong television and radio advertising, national and local promotions, and superior customer service, it is management's objective to deliver industry-leading SSSG.


With over 75 new locations in our development pipeline for the next five years, a unique renovation program, industry-leading SSSG, and our continued commitment to operational improvements, our management team believes that Boston Pizza will continue to be Canada's number one casual dining brand.

On behalf of Boston Pizza International Inc.,



MIKE CORDOBA
Chief Executive Officer
Boston Pizza International Inc.

it's about stability

A black and white photograph of five men in business suits standing in a row in front of a modern building with large glass windows. The men are smiling and looking towards the camera. The image is framed by a yellow border at the top and bottom.

JIM TRELIVING
Chairman & Owner
Boston Pizza International
36 Years of Service

GEORGE MELVILLE
Chairman & Owner
Boston Pizza International
31 Years of Service

MARK PACINDA
President
Boston Pizza International
6 Years of Service

MIKE CORDOBA
Chief Executive Officer
Boston Pizza International
11 Years of Service

MARK POWELL
Chief Financial Officer
Boston Pizza International
3 Years of Service

A Top-Line Fund

The structure of the Fund provides Unitholders with top-line royalty from Boston Pizza restaurants. The Fund has no capital expenditures.

A Franchised Concept

BPI is strategically focused on franchising. Of the **181 locations from Coast to Coast**, 179 locations are franchised. Expansion is exclusively achieved by the company's ability to sell franchises.



A Unique Renovation Program

Boston Pizza franchisees are required to renovate the interior and exterior of their restaurants and bring them up to current Boston Pizza prototype standards every 7 years. This ensures each location stays competitive.

In 2003, there were 18 renovations completed and 2 relocations.

The average increase in same store sales post-renovation is 10-15%.

Staff Retention

Average length of senior management **10+ years**.

Low Closure Rate

BPI's low closure rate is indicative of the strong unit economics at the franchise level. Only 2 closures/non-renewal of franchise agreements in the last 6 years. **No locations were closed in 2003**, a rate well below the industry average.

Employee Incentive Plan – BP TIPS

In 2003, BPI introduced the Boston Pizza Team Incentive Plan System (BP TIPS) to all BPI staff that closely aligns the interests of BPI employees and Fund Unitholders. The incentive rewards are based on two criteria:

- **SAME STORE SALES GROWTH**
- **NEW STORE OPENINGS**

Low Average Guest Cheque

The Boston Pizza average guest cheque is on the low end of Casual Dining. **In 2003, the average guest cheque was**

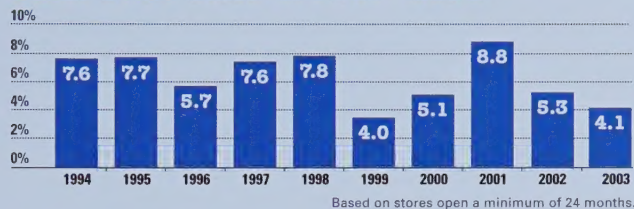
\$12.38



it's about growth

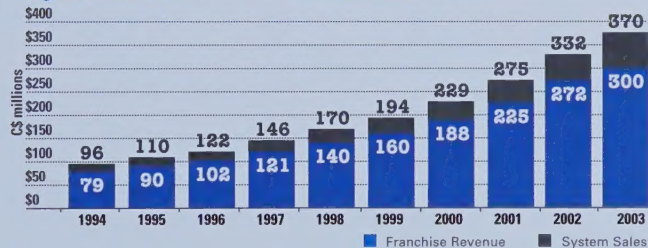


Same Store Sales Growth (SSSG)



The primary driver for yield growth of the Fund is SSSG. In the last 10 years Boston Pizza restaurants nationwide have averaged over 6% SSSG and have not experienced a negative SSSG year. **In 2003, SSSG was 4.1%.**

System Sales & Franchise Sales

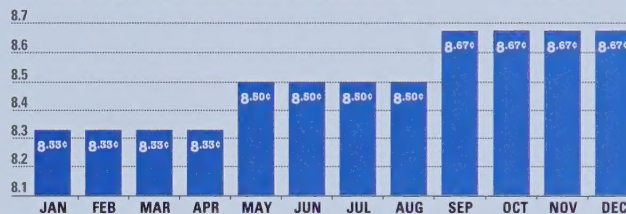


OVERALL GROWTH OF SYSTEM WIDE GROSS SALES OVER THE LAST 10 YEARS **16.2%**

SYSTEM WIDE GROSS SALES IN 2003 **\$370 million**

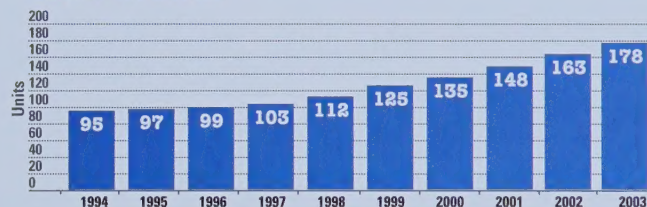
FRANCHISE SALES IN 2003 **\$300 million**

Cash Distributions Declared 2003



In 2003, the Fund delivered **two increases in distributions** to Unitholders.

Store Growth



STORE OPENINGS IN 2003: **15** STORE CLOSURES IN 2003: **0**



it's about Canada's #1 casual dining brand



More Locations, More Customers

Boston Pizza has more locations and serves more customers each year than any other casual dining concept in Canada.

- 25 MILLION CUSTOMERS IN 2003
- 178 LOCATIONS AS OF DECEMBER 31, 2003

Distinct Demographics

A single brand focus with two distinct demographics

- 1 FAMILIES
- 2 YOUNG ADULTS

Proven Strategy

"Three Pillars" Strategy – This strategy is the backdrop of all decision making that has underpinned the development and success of the Boston Pizza system.

A COMMITMENT TO FRANCHISEE PROFITABILITY

When franchisees succeed all other stakeholders benefit.

A COMMITMENT TO BUILDING THE BOSTON PIZZA BRAND

Strong Marketing Programs that drive customer traffic:



PASTA TUESDAY



SPAGHETTI WESTERN



RIB RAGEOUS



VALENTINE'S DAY

A COMMITMENT TO CONTINUALLY IMPROVING THE CUSTOMER EXPERIENCE

Charity Begins at Home

A strong commitment to philanthropic causes:

- **THE BOSTON PIZZA FOUNDATION**
Over **\$2.8 million** raised for various charities since inception
- **2003 VALENTINES DAY HEAR SHAPED PIZZA PROMO**
Over \$160,000 raised for The Heart & Stroke Foundation
- **2003 GOLF TOURNAMENT FUNDRAISING**
The Boston Pizza Foundation Invitational & various other golf tournaments. **Over \$375,000** raised for Kids Help Phone, Juvenile Diabetes Research Foundation, CIBC Wood Gundy Caring For Kids, Canuck Place, and other charities



families



young adults

Boston Pizza Royalties Income Fund

Management Discussion & Analysis

JANUARY 1, 2003 TO DECEMBER 31, 2003

FINANCIAL HIGHLIGHTS

The following table sets out selected historical information and other data of the Boston Pizza Royalties Income Fund (the "Fund"), which should be read in conjunction with the attached consolidated financial statements of the Fund.

	Period from date of establishment on January 1, 2003 to December 31, 2003		July 17, 2002 to December 31, 2002
(in thousands of dollars) – except restaurants and per unit items			
Number of restaurants in Royalty Pool		162	154
Franchise Revenues reported			
by restaurants in Royalty Pool	\$	286,364	\$ 124,203
Royalty & Interest Income	\$	13,258	\$ 5,800
Earnings before Non-Controlling Interest	\$	12,383	\$ 5,347
Non-Controlling Interest	\$	4,209	\$ 1,707
Net earnings	\$	8,175	\$ 3,640
Earnings per Fund unit	\$	1.04	\$ 0.47
Distributions declared per Fund unit	\$	1.02	\$ 0.46
Same Store Sales Growth		4.1%	Not Available
Number of restaurants opened			
during Period		15	8

	December 31, 2003	December 31, 2002
(in thousand of dollars)		
Total Assets	\$ 138,700	\$ 135,511
Total Liabilities	\$ 64,316	\$ 65,011

	Q4 2003	Q3 2003	Q2 2003	Q1 2003	Q4 2002	Q3 2002
(in thousands of dollars) – except restaurants and per unit items Unaudited						
Number of restaurants in Royalty Pool	162	162	162	162	154	154
Franchise Revenues reported by restaurants in Royalty Pool	\$72,868	\$76,467	\$71,281	\$65,748	\$67,115	\$57,088
Royalty & Interest Income	\$3,367	\$3,509	\$3,302	\$3,080	\$3,136	\$2,664
Earnings before Non-Controlling Interest	\$3,142	\$3,311	\$3,073	\$2,857	\$2,840	\$2,507
Non-Controlling Interest	\$1,074	\$997	\$1,067	\$1,071	\$931	\$776
Net earnings	\$2,068	\$2,315	\$2,006	\$1,786	\$1,909	\$1,731
Earnings per Fund unit	\$0.26	\$0.29	\$0.26	\$0.23	\$0.24	\$0.23
Distributions declared per Fund unit	\$0.3468	\$0.2550	\$0.2516	\$0.1666	\$0.3332	\$0.1253

Any further references to the Fund refer to the Fund and its subsidiaries, as the financial results presented in this annual report are presented on a consolidated basis

Boston Pizza Royalties Income Fund

Management Discussion & Analysis

JANUARY 1, 2003 TO DECEMBER 31, 2003

OVERVIEW

This Annual Report covers the period of January 1, 2003 to December 31, 2003 (the "Period") and is the Fund's first full fiscal year. The Management Discussion and Analysis of the results for this Period is dated April 15, 2004. A copy of this Annual Report and additional information about the Fund is available at www.sedar.com or www.bpincomefund.com.

The Fund owns the Canadian trademarks for Boston Pizza (the "BP Rights"²), Canada's number one casual dining brand. The Fund has licensed the BP Rights back to Boston Pizza International Inc. ("BPI") in return for a 4% royalty of Franchise Sales of those Boston Pizza restaurants included in the specific royalty pool (the "Royalty Pool"). There were 162 restaurants in the Royalty Pool for the Period.

On January 1 of each year ("Adjustment Date"), an adjustment is made to add to the Royalty Pool new Boston Pizza full-service restaurants that have been open at least 60 days prior to that Adjustment Date. In return for adding this additional royalty revenue, BPI receives the right to indirectly acquire additional Fund units (the "Additional Entitlements"). The adjustment for new franchise revenues added to the Royalty Pool is designed to be accretive for Unitholders. The Additional Entitlements are calculated at 92.5% of the royalty revenue added to the Royalty Pool, divided by the yield of the Fund, divided by the Weighted Average Unit Price. BPI receives 80% of the Additional Entitlements initially, with the balance received when the actual full year performance of the new restaurants is known with certainty. BPI receives 100% of distributions from the Additional Entitlements throughout the year. Once these new restaurants have been part of the Royalty Pool for a full year, an audit of the royalty revenues of these restaurants received from BPI will be performed. At such time an adjustment will be made to reconcile distributions paid to BPI and the Additional Entitlements received by BPI. On January 1, 2003 eight new restaurants were added to the Royalty Pool and BPI received the right to acquire an additional 448,273 units of the Fund. The 448,273 represents 80% of the Additional Entitlements.

A key attribute of the Fund structure is the fact that it is a "top-line" fund. Royalty income of the Fund is based on top-line revenue of Royalty Pool restaurants and is not determined by the profitability of either BPI or the Boston Pizza restaurants in the

Royalty Pool. Given this structure, the success of the Fund depends primarily on the ability of BPI to maintain and increase Franchise Sales of the Royalty Pool.

Increases in Franchise Sales are derived from both new Boston Pizza restaurants and Same Store Sales Growth ("SSSG"). The key metric for yield growth of the Fund is SSSG. SSSG from existing restaurants is dependent on maintaining operational excellence within each Boston Pizza restaurant, general market conditions, pricing, and marketing programs undertaken by BPI. One of BPI's competitive strengths in increasing Franchise Sales of existing locations is that BPI's Franchise Agreement requires that each Boston Pizza restaurant undergo a complete store renovation every seven years as well as complete any equipment upgrades as required by BPI. Following a complete store renovation, Franchise Sales for renovated locations have historically increased by an average of 10-15%.

Franchise Sales are also affected by the permanent closures of Boston Pizza restaurants. A Boston Pizza restaurant is closed when it ceases to be viable or when BPI has agreed with the franchisee to terminate the Franchise Agreement. BPI has a very low store closure rate. In 2003 no restaurants were closed and in fact only two Boston Pizza restaurants have closed in the last six years, a statistic significantly below the industry average. In the event that a location actually closes, the Fund has a make-whole provision agreement with BPI whereby BPI will replenish the royalties that would have been paid to the Fund.

The following information provides additional analysis of the operations and financial position of the Fund and should be read in conjunction with the consolidated financial statements and accompanying notes. The financial statements are in Canadian dollars and have been prepared in accordance with Canadian Generally Accepted Accounting Principles. *Readers should note that the 2003 results are not directly comparable with the 2002 results due to the fact that the Fund acquired the BP Rights on July 17, 2002.*

²BP Rights are the trademarks that as at July 17, 2002 were registered or the subject of pending applications for registration under the Trademarks Act (Canada), and other trademarks and the trade names which are confusing with the registered or pending trademarks. The BPI Rights purchased do not include the rights outside of Canada to any trademarks or trade names used by BPI or any affiliated entities in its business, and in particular do not include the rights outside of Canada to the trademarks registered or pending registration under the Trademarks Act (Canada).

Boston Pizza Royalties Income Fund

Management Discussion & Analysis

JANUARY 1, 2003 TO DECEMBER 31, 2003

OPERATING RESULTS

Despite the challenges that foodservice operators faced, Boston Pizza posted positive growth in 2003. BPI's overall system-wide sales growth for the Period was 11.4%. Overall sales growth is achieved through new store openings and SSSG.

SSSG

SSSG, the key metric for growth of the Fund, was 4.1% for the Period. SSSG is a cumulative effect of increased customer traffic and increased average guest cheque. As a result of positive SSSG, the Fund was able to provide Unitholders with two increases in monthly distributions in 2003. In June, Unitholders received the first distribution increase as distributions were raised by 2% from \$0.0833 per unit to \$0.085 per unit. Four months later in October, Unitholders received the second increase in distributions as the Fund raised distributions again by 2%, this time from \$0.085 per unit to \$0.0867 per unit.

New Store Openings and Renovations

In 2003, 15 new Boston Pizza restaurants opened and no restaurants were closed. As well during the Period 18 Boston Pizza restaurants were renovated and 2 restaurants were relocated to improved sites. Typically, locations that renovate are closed for 2-3 weeks. BPI's unique renovation program is a proven sales builder. Historically the average increase in overall sales for renovated sites has been 10% - 15% post renovation.

Revenues

For the Period royalty income received by the Fund was \$11,454,561 and interest income was \$1,803,434. The royalty income was based on the Royalty Pool of 162 full-service Boston Pizza restaurants in Canada reporting Franchise Sales of \$286,364,021. For the period of July 17, 2002 to December 31, 2002 (the "Initial Period") royalty income received by the Fund was \$4,968,119 and interest income was \$831,433. The Initial Period royalty income was based on the Royalty Pool of 154

full-service Boston Pizza restaurants in Canada reporting Franchise Sales of \$124,202,975. Interest income is primarily derived from a \$24.0 million loan from the Fund to BPI. The interest on this loan is paid monthly by BPI at a rate of 7.5% per annum.

Operating Expenses

The Fund's consolidated operating expenses for the Period were \$874,580: \$271,884 of interest expense on its \$5 million term loan, \$30,000 for amortization of deferred financing charges on its credit facilities, and \$572,696 for general and administrative expense. For the Initial Period consolidated operating expenses were \$452,823: \$120,910 of interest expense on its \$5 million term loan, \$12,500 for amortization of deferred financing charges on its credit facilities, and \$319,413 for general and administrative expense. The general and administrative expenses are comprised mainly of professional fees, insurance premiums, transfer agent costs, and trustee fees.

Of the \$11,454,561 of royalty income earned by the Fund, \$4,208,853 represents BPI's indirect interest in the Fund.

Boston Pizza Royalties Income Fund

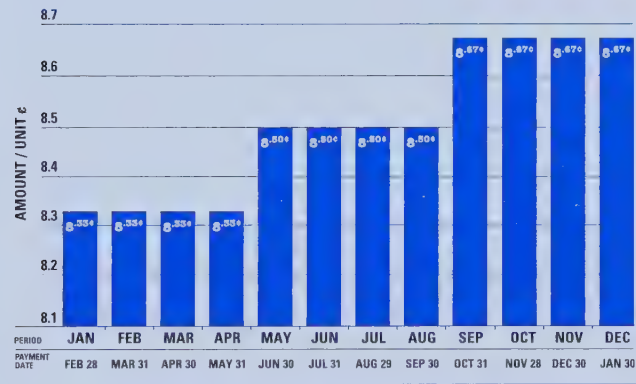
Management Discussion & Analysis

JANUARY 1, 2003 TO DECEMBER 31, 2003

Distributions

Net earnings of the Fund were \$8,174,562 or \$1.0392 per unit with the Fund declaring distributions of \$8,071,417 or \$1.0200 per unit for the Period. During the Initial Period net earnings were \$3,639,625 or \$0.4732 per unit and distributions of \$3,525,866 or \$0.4585 per unit declared. Distributions for the Period were as follows:

Cash Distributions Declared - 2003



On July 15, 2003, BPI exchanged 378,052 Class A units for an equal amount of Fund units. BPI then sold these Fund units to the public. At December 31, 2003 there were 8,068,052 public Fund units issued, 10,085,065 on a fully diluted basis, and BPI had a 20% indirect interest in the Fund.

Tax Treatment of Distributions

Of the \$1.02 in distributions declared per unit during the Period, 25.16 % or \$0.2566 per unit represents a tax deferred return of capital and 74.84% or \$0.7634 is taxable as income from property.

Subsequent Events

Subsequent to December 31, 2003, Boston Pizza opened three new locations bringing the total number of locations open as of April 15, 2004 to 181.

On January 1, 2004, 15 new Boston Pizza restaurants were added to the Royalty Pool; the locations opened during the period November 2, 2002 to November 1, 2003. In return for adding the royalty revenue from these 15 new restaurants to the Royalty Pool, BPI received the right to acquire an additional 738,345 units of the Fund. The 738,345 represents 80% of the Additional Entitlements with the balance received when the actual full year performance of the new restaurants is known with certainty. The 738,345 Additional Entitlements represented 6.82% of the Fund units on a fully diluted basis. BPI also receives a proportionate increase in monthly distributions based on the Additional Entitlements. The calculation for the number of Additional Entitlements received by BPI is designed to be accretive to existing Fund Unitholders as the additional royalty revenues from the new restaurants are licensed to the Fund at a 7.5% discount. The estimated royalty revenue the Fund will receive in 2004 from these additional 15 restaurants is \$1,017,716. The royalty revenue for the purposes of calculating the Additional Entitlement, therefore, is \$941,387 or 92.5%. Once the actual performance of these 15 restaurants for 2004 is known, the number of Additional Entitlements will be adjusted in 2005 to reflect the actual royalty revenue received by the Fund in 2004. As of January 1, 2004 there were 177 restaurants in the Royalty Pool.

In January 2004 an audit of the royalty revenues of the 8 locations that were rolled into the Royalty Pool on January 1, 2003 was completed. The purpose of this audit was to compare actual royalty revenue from these 8 locations to the estimated amount of royalty revenue the Fund expected to receive. The original royalty revenue the Fund expected to receive was \$603,440 and the actual royalty revenue that the Fund received was \$576,909. As a result, BPI made a cash payment to the Fund of \$25,129 for this nominal mismatch in royalty revenue. Since BPI only receives the right to acquire 80% of the Additional Entitlement at the Adjustment Date in 2003, BPI received the right to acquire its remaining portion of the Additional Entitlements or 87,432 Additional Entitlements following this audit.

On March 8, 2004 BPI exchanged 660,622 Class A units for an equal amount of Fund units. BPI then sold these Fund units to the public. As of March 11, 2004 there were 8,728,674 Fund units issued, 10,910,842 on a fully diluted basis, and BPI had a

Boston Pizza Royalties Income Fund

Management Discussion & Analysis

JANUARY 1, 2003 TO DECEMBER 31, 2003

Subsequent Events (continued)

20% indirect interest in the Fund. BPI has committed to maintain a minimum 20% indirect interest in the Fund until there are 275 restaurants in the Royalty Pool.

As a result of positive SSSG in early 2004, the Fund declared an increase in monthly distributions on April 12, 2004. The Fund raised distributions by 3.8% from \$0.0867 per unit to \$0.09 per unit beginning with the March 2004 distributions.

LIQUIDITY & CAPITAL RESOURCES

The Fund's distribution policy is to distribute all available cash in order to maximize returns to Unitholders. In light of small seasonal variations that are inherent to the restaurant industry, the Fund's policy is to make equal distribution payments to Unitholders on a monthly basis in order to smooth out these fluctuations. Any further increase in distributions will be implemented in such a manner so that the continuity of uniform monthly distributions is maintained, while making provisions for working capital due to seasonal variations of Boston Pizza restaurant sales.

The \$5 million non-revolving term loan facility was arranged during the IPO to partially finance the purchase of the BP Rights from BPI, and to provide term debt as part of the capital structure. In order for the term loan to be in good standing with the lending bank, earnings before interest, depreciation, and amortization ("EBITDA"³) of the Boston Pizza Royalties Limited Partnership (the "Partnership") for any four consecutive quarters must be at minimum \$7,500,000. For the four quarters in 2003 EBITDA of the Partnership was \$10,885,342. In addition, any change in ownership of the Partnership or the Boston Pizza Holdings Trust requires prior approval of the lending bank other wise the bank may accelerate repayment of the term loan. The term loan expires on July 16, 2005 and the Fund intends to arrange for the renewal of the loan prior to maturity.

The Fund also has a \$1 million operating line of credit to allow for any seasonal variations that could result in mismatches between royalty revenue inflows and distributions to Unitholders of the Fund. The term of this facility is 364-day revolving. During the Period this operating line of credit was renewed.

The Fund is well capitalized. As of December 31, 2003 the Fund's \$1 million operating line of credit was 100% available and there was \$355,665 of working capital.

Critical Accounting Estimates

The Fund annually reviews the value of the intangible assets for impairment. The intangible assets are comprised primarily of the BP Rights and at year-end were reported at \$109,348,900. The review is based on the unit price throughout the fiscal year compared to the IPO unit price, distributable cash throughout the fiscal year compared to the level set out in the prospectus, and any legal issues that may have a significant impact on the Fund. The Fund reviewed the intangible assets as at December 31, 2003 and concluded there was no impairment.

OUTLOOK

Boston Pizza is well positioned for future growth and should continue to strengthen its position as the number one casual dining brand in Canada. In 2004 BPI management anticipates that 15 new locations will open across Canada. The Company is on track to open 70-80 new restaurants across Canada over the next five years. Opening these new locations will support the continuing enhancement of the Boston Pizza brand. In addition, BPI Management believes that in 2004 the organization can continue to deliver industry-leading SSSG from national and local marketing programs and BPI's unique renovation program that requires each location to renovate every seven years. BPI anticipates 15 locations will conduct major renovations, which will help facilitate the ongoing effort to deliver industry-leading SSSG. Management will continue to pursue further development in Western Canada, Ontario, and the Maritimes while aggressively pursuing additional opportunities in Quebec.

As with all forward-looking statements, due care and caution should be employed to ensure that appropriate interpretation is made. Please refer to the note⁴ at the end of this document for further clarification.

³ EBITDA is not a measure recognized under Generally Accepted Accounting Principles. The EBITDA of the Partnership was calculated by taking Royalty Revenue plus Interest Revenue less General and Administrative Expenses.

Boston Pizza Royalties Income Fund

Management Discussion & Analysis

JANUARY 1, 2003 TO DECEMBER 31, 2003

RISKS & UNCERTAINTIES

The Restaurant Industry

The performance of the Fund is directly dependent upon the royalty and interest payments received from BPI. The amount of royalty received from BPI is dependent on various factors that may affect the casual dining sector of the restaurant industry. The restaurant industry generally, and in particular the casual dining sector, is intensely competitive with respect to price, service, location and food quality. Competitors include national and regional chains, as well as independently owned restaurants. If BPI and the Boston Pizza franchisees are unable to successfully compete in the casual dining sector, Franchise Sales may be adversely affected; the amount of royalty reduced and the ability of BPI to pay the royalty or interest on the BP Loan may be impaired. The restaurant industry is also affected by changes in demographic trends, traffic patterns, and the type, number, and location of competing restaurants. In addition, factors such as government regulations, smoking bylaws, inflation, publicity from any food borne illnesses, increased food, labour and benefits costs, and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and therefore potentially Boston Pizza Franchise Sales. BPI's success also depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could reduce revenue and operating income, which could adversely affect revenue, the royalty and the ability of BPI to pay the royalty to the Fund or interest on the BP Loan.

Boston Chicken / Boston Market Litigation

Since 1995, BPI has been challenging Boston Chicken Inc.'s and Global Restaurant Operations of Ireland Limited's registration of the "Boston Chicken" trademark in Canada. In March 2003, the Federal Court of Appeal unanimously ordered the expungement of "Boston Chicken" from the trademark registry. The expungement of the "Boston Chicken" trademark is a significant victory because there is now only one owner (the Fund) of registered trademarks using "Boston" in connection with restaurant foodservices in Canada. Additionally, since 1995 BPI has

opposed the registration of the "Boston Market" trademark. As a result, "Boston Market" is not yet a registered trademark. BPI and/or the Partnership intend to oppose the registration of this and any other trademark by Boston Market and/or any other parties if the proposed trademark contains, among others, the word "Boston" in connection with food, food products and/or restaurant food services. In 2002 BPI and the Fund commenced legal action against Global Restaurant Operations of Ireland Limited, Boston Market Canada Company, Boston Market Corporation, and McDonald's Restaurants of Canada Limited (the "McDonald's Group") for trademark infringement over the McDonald's Group's use of "Boston Market". BPI management and the Fund intend to continue to vigorously prosecute any infringement or unauthorized use of the Boston Pizza trademarks. In the fall of 2002 Boston Market Canada Company and Global Operations of Ireland Limited ("the Boston Market Group") issued a counterclaim and commenced a separate proceeding challenging the registration of the Boston Pizza trademarks owned by the Fund, some of which have been registered, and in use for over 30 years. BPI management believes that this is a tactical maneuver by the McDonald's Group and is unlikely to succeed. However, in the unlikely event that the challenge to the Boston Pizza trademarks is successful, the Fund would lose the benefits of registration of its trademarks under the Trade-Marks Act (Canada), which may mean losing the ability to prevent others from using the registered trademarks for the goods and services for which they are registered and to prevent others from using similar or confusing trademarks or names. However the loss of the registration under the Trade-Marks Act (Canada) would not prevent the Fund from continuing to license and use the "Boston Pizza" and related trademarks or from taking other measures to protect their rights in respect of, and their ability to use, the "Boston Pizza" and related trademarks in the existing operations and geographic territories where they are presently used and in areas where BPI and its sub-licensees do not presently operate Boston Pizza restaurants. In July 2003 the Federal Court of Canada, on an application for summary judgment brought by BPI and the Partnership, dismissed portions of the counterclaim by the Boston Market Group, seeking to expunge the registrations of the Boston Pizza trademarks. The Federal Court dismissed the counterclaim as it relates to registered trademarks BP & Design, BP's Lounge and BP's Bistro. The Court did not dismiss the

Boston Pizza Royalties Income Fund

Management Discussion & Analysis

JANUARY 1, 2003 TO DECEMBER 31, 2003

Boston Chicken / Boston Market Litigation (continued)

counterclaim regarding three other trademarks, including "Boston Pizza", primarily on the basis that the counterclaim raises issues that should not be resolved on a summary basis and should instead be decided at trial. BPI and the Partnership are in the process of appealing this decision. The parties are waiting for trial dates, none of which have been set but BPI management expects the infringement trial to commence in late 2005 or early 2006. BPI management believes that ultimately, BPI and the Fund will be successful in its litigation with the McDonald's Group, including the Boston Market Group. However, there are no assurances or certainty as to the eventual outcome of these legal proceedings.

Other

For a more detailed list of risks and uncertainties please refer to the Fund's Annual Information Form which is available at www.sedar.com.

Certain statements in this annual report may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this annual report such statements are such words as "may", "will", "expect", "believe", "plan", and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this annual report. These forward-looking statements involve a number of risks and uncertainties. The following are some factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking statements: competition; changes in demographic trends; changing consumer preferences and discretionary spending patterns; changes in national and local business and economic conditions; legislation and governmental regulation; accounting policies and practices; and the results of operations and financial condition of BPI. The foregoing list of factors is not exhaustive.

Auditor's Report to the Unitholders of Boston Pizza Royalties Income Fund

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM DATE OF ESTABLISHMENT ON JULY 17, 2002 TO DECEMBER 31, 2002

We have audited the consolidated balance sheets of Boston Pizza Royalties Income Fund as at December 31, 2003 and 2002 and the consolidated statements of earnings, unitholders' equity and cash flows for the year ended December 31, 2003 and the period from the date of establishment on July 17, 2002 to December 31, 2002. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the year ended December 31, 2003 and the period from the date of establishment on July 17, 2002 to December 31, 2002 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Vancouver, Canada

February 6, 2004

Boston Pizza Royalties Income Fund

Consolidated Balance Sheet

DECEMBER 31, 2003 AND 2002

	2003	2002
Assets		
Current assets:		
Cash	\$ 273,890	\$ 245,270
Accounts receivable	12,840	
Due from Boston Pizza International Inc. (note 3)	1,186,755	1,162,500
Loan to Boston Pizza International Inc. (note 9(a))	3,787,587	620,527
Prepaid expenses	54,938	43,005
	5,303,170	2,084,142
Note receivable from Boston Pizza International Inc. (note 4)	24,000,000	24,000,000
Intangible assets (note 5)	109,348,900	109,348,900
Deferred financing charges, net of accumulated amortization of \$42,500 (2002 – \$12,500)	47,500	77,500
	\$ 138,699,570	\$ 135,510,542

Liabilities and Unitholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 150,960	\$ 386,515
Distributions payable to fund unitholders	699,496	640,577
Distributions payable to Boston Pizza International Inc. (note 9)	4,097,049	930,791
	4,947,505	1,957,883
Term loan (note 8)	5,000,000	5,000,000
Non-controlling interest (note 9)	54,368,641	58,052,900
Unitholders' equity	74,383,424	70,499,759
	\$ 138,699,570	\$ 135,510,542

Nature of operations (note 1)

Contingency (note 12)

Subsequent events (note 14)

See accompanying notes to consolidated financial statements.

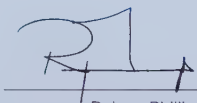
Approved by the Trustees:



John Cowperthwaite



William Brown



Robert Phillips

Boston Pizza Royalties Income Fund

Consolidated Statement of Earnings

YEAR ENDED DECEMBER 31, 2003
PERIOD FROM DATE OF ESTABLISHMENT ON
JULY 17, 2002 TO DECEMBER 31, 2002

	Year ended December 31, 2003	Period from date of establishment on July 17, 2002 to December 31, 2002
Franchise revenues reported by Boston Pizza Restaurants included in royalty pool (notes 1(b) and 2(b))	\$ 286,364,021	\$ 124,202,975
Revenue (notes 1(b) and 2(b)):		
Royalty income	\$ 11,454,561	\$ 4,968,119
Interest income	1,803,434	831,433
	13,257,995	5,799,552
Expenses:		
General and administrative (note 11)	572,696	319,413
Interest	271,884	120,910
Amortization of deferred financing charges	30,000	12,500
	874,580	452,823
Earnings before non-controlling interest	12,383,415	5,346,729
Non-controlling interest (note 9)	4,208,853	1,707,104
Net earnings	\$ 8,174,562	\$ 3,639,625
Weighted average units outstanding	7,866,079	7,690,000
Basic and diluted earnings per fund unit	\$ 1.04	\$ 0.47

Boston Pizza Royalties Income Fund

Consolidated Statement of Unitholders' Equity

YEAR ENDED DECEMBER 31, 2003
PERIOD FROM DATE OF ESTABLISHMENT ON
JULY 17, 2002 TO DECEMBER 31, 2002

	Year ended December 31, 2003	Period from date of establishment on July 17, 2002 to December 31, 2002
Balance, beginning of period	\$ 70,499,759	\$ —
Issue of Boston Pizza Royalties Income Fund units, net of issue costs (note 9(b))	3,780,520	70,386,000
Net earnings	8,174,562	3,639,625
Distributions declared	(8,071,417)	(3,525,866)
Balance, end of period	\$ 74,383,424	\$ 70,499,759

See accompanying notes to consolidated financial statements.

Boston Pizza Royalties Income Fund

Consolidated Statement of Cash Flows

YEAR ENDED DECEMBER 31, 2003
PERIOD FROM DATE OF ESTABLISHMENT ON
JULY 17, 2002 TO DECEMBER 31, 2002

	Year ended December 31, 2003	Period from date of establishment on July 17, 2002 to December 31, 2002
Cash provided by (used in):		
Operations:		
Net earnings	\$ 8,174,562	\$ 3,639,625
Items not involving cash:		
Amortization of deferred charges	30,000	12,500
Non-controlling interest	4,208,853	1,707,104
Change in non-cash operating working capital (note 13(a))	(258,903)	(831,830)
	12,154,512	4,527,399
Investments:		
Acquisition of BP Rights (note 5)	—	(51,296,000)
Note receivable from Boston Pizza International Inc. (note 4)	—	(24,000,000)
	—	(75,296,000)
Financing:		
Distributions paid to unitholders	(8,012,498)	(2,885,289)
Loan to Boston Pizza International Inc. (note 9(a))	(3,787,587)	(620,527)
Net distributions paid to non-controlling interest (BPI) (note 9(a))	(325,807)	(776,313)
Issuance of fund units (note 10)	—	76,900,000
Costs of issuance of fund units (note 10)	—	(6,514,000)
Proceeds from term loan (note 8)	—	5,000,000
Deferred financing charges	—	(90,000)
	(12,125,892)	71,013,871
Increase in cash	28,620	245,270
Cash, beginning of period	245,270	—
Cash, end of period	\$ 273,890	\$ 245,270

See note 13(b) for supplementary cash flow information.

See accompanying notes to consolidated financial statements.

Boston Pizza Royalties Income Fund

Notes to Consolidated Statements

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM DATE OF ESTABLISHMENT ON JULY 17, 2002 TO DECEMBER 31, 2002

1. Organization and nature of operations:

(a) Organization:

Boston Pizza Royalties Income Fund (the "Fund") is an unincorporated open-ended limited purpose trust established under the laws of the Province of British Columbia. Pursuant to the Declaration of Trust signed July 8, 2002, an amount equal to all of the income of the Fund together with the non-taxable portion of any net capital gain realized by the Fund will be distributed by the Fund to its unitholders each month. As a result, the Fund will not be liable for income taxes. Income tax obligations related to the distributions by the Fund are obligations of the unitholders.

The Fund was established to indirectly, through the Boston Pizza Royalties Limited Partnership (the "Partnership"), acquire the trademarks and trade names owned by Boston Pizza International Inc. ("BPI") and used in connection with the operation of Boston Pizza restaurants in Canada (collectively, the "BP Rights"). The BP Rights do not include the rights outside of Canada to any trademarks or trade names used by BPI or any affiliated entities in its business, and in particular do not include the rights outside of Canada to the trademarks registered or pending registration under the Trademarks Act (Canada). The BP Rights also exclude certain restaurant locations in Canada, primarily those locations that were opened subsequent to the formation of the Fund and have not been rolled into the Royalty Pool of the Fund (note 14).

The Fund was also established to acquire, directly from a bank, the BPI loan (the "BP Loan") in the principal amount of \$24 million.

(b) Nature of operations:

BPI carries on business as a franchisor of casual dining pizza and pasta restaurants and operates only in Canada. The rights to operations outside of Canada, which are owned by an affiliated company, and certain restaurants in Canada, as noted above, are not included in the Royalty Pool of the Fund.

Substantially all of the Fund's revenues are earned from certain operations of BPI and, accordingly, the revenues of the Fund and its ability to pay distributions to unitholders is dependent on the ongoing ability of BPI to generate and pay royalties to the Fund.

1. Organization and nature of operations (continued):

(c) Operations:

On January 1, 2003, eight new Boston Pizza restaurants that opened during the period from May 1, 2002 to November 1, 2002 were added to the Royalty Pool of the Fund. As a result of the additional sales created by these new stores, Boston Pizza International ("BPI") received additional entitlement equivalent to 448,273 Fund Units, or 4.46% of the issued and outstanding Fund Units on a fully diluted basis. BPI also received a proportionate increase in monthly distributions from the Fund.

In June 2003, the Fund issued an additional entitlement of 22,859 units and paid an amount of \$15,543 to BPI. This additional distribution and entitlement was for adjustments to royalty payments of 12 restaurants included in the Royalty Pool that were open for less than twelve months at April 30, 2002.

On July 15, 2003, BPI exchanged 378,052 Class A partnership units for an equal amount of Fund units (note 9(b)). Following this exchange, BPI sold these units of the Fund at \$9.95 per unit to the public. As at December 31, 2003, BPI holds securities convertible into 2,017,013 units of the Fund which equates to 20% of the fully diluted units of the Fund. BPI has agreed to maintain at least a 20% ownership, direct or indirect, in the Fund until such time as there are 275 restaurants in the Royalty Pool. A total of 162 restaurants are in the pool at December 31, 2003 (December 31, 2002 – 154 restaurants).

2. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements include the accounts of the Fund, its wholly-owned subsidiary Boston Pizza Holdings Trust (the "Trust"), its 80%-owned subsidiary Boston Pizza GP Inc. ("BPGP") and its interest in the Partnership (collectively, the "Companies" or "Fund"). BPGP is the managing general partner and BPI is a general partner of the Partnership. All residual ownership of the Companies is either directly or indirectly controlled by BPI and has been recorded as non-controlling interest.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

All significant intercompany transactions have been eliminated.

Boston Pizza Royalties Income Fund

Notes to Consolidated Statements

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM DATE OF ESTABLISHMENT ON JULY 17, 2002 TO DECEMBER 31, 2002

2. Significant accounting policies (continued):

(b) Revenue recognition:

Royalty revenue is equal to four percent of franchise revenue, of specific Boston Pizza Restaurants included in the Royalty Pool. Franchise revenue includes gross revenues reported by Boston Pizza Restaurants to BPI excluding revenue from the sale of liquor, beer, wine and tobacco, revenue from BPI approved national promotions and discounts, sales and goods and services tax or similar amount levied by any governmental or administrative authority, and excluding initial or renewal franchise fees charged by BPI upon the establishment or renewal of franchises and franchise agreements. Royalty revenue is recognized monthly on an accrual basis.

Interest revenue is recognized and accrued when earned.

(c) Intangible assets:

Intangible assets consisting of trademarks, trade names, operating procedures and systems and other intellectual property used in connection with the operation of the Boston Pizza restaurants are recorded at cost. Management of the Fund reviews the carrying value of the intangible assets at least annually, taking into consideration any events or circumstances which may impair the carrying value. If a permanent decline in the carrying amount is determined, the intangible assets will be written down to their estimated net recoverable amount.

(d) Deferred financing charges:

Deferred financing charges are related to the term loan and are amortized on a straight-line basis over the three-year term of the loan.

(e) Distributions to Fund unitholders:

The amount of cash to be distributed to Fund unitholders is determined with reference to distributable cash, which is calculated as net earnings adjusted for amortization, non-controlling interest entitlements, other non-cash charges and repayment of principal and interest on the term loan. Distributions to Fund unitholders are made monthly and are subject to the Fund retaining such reasonable working capital reserves as may be considered appropriate by the trustees of the Fund.

(f) Earnings per Fund unit:

The earnings per Fund unit are based on the weighted average number of Fund units outstanding during the period. As at December 31, 2003 there is no dilutive effect of potential effects of the non-controlling interest exercising its right to exchange its Class A units and Class B units of the Partnership into units of the Fund.

(g) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment in the value of assets, useful lives for amortization and provisions for contingencies. Actual results could differ from those estimates.

(h) Financial instruments:

The Fund's financial instruments consist of cash, accounts and notes receivable, due from Boston Pizza International Inc., accounts payable and accrued liabilities, distributions payable, and term loan. Management estimates that the fair values of these financial instruments approximate their carrying values. It is management's opinion that the Fund is not exposed to significant interest rate or credit risk from these financial instruments.

3. Due from Boston Pizza International Inc.:

	December 31, 2003	December 31, 2002
Royalty fee receivable	\$ 1,036,755	\$ 1,012,500
Interest on note receivable (note 4)	150,000	150,000
	<u>\$ 1,186,755</u>	<u>\$ 1,162,500</u>

Boston Pizza Royalties Income Fund

Notes to Consolidated Statements

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM DATE OF ESTABLISHMENT ON JULY 17, 2002 TO DECEMBER 31, 2002

4. Note receivable from Boston Pizza International Inc.:

Note receivable with interest payable monthly at 7.5% per annum, due July 17, 2042	\$ 24,000,000	\$ 24,000,000
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The note arose at the time of the acquisition of the trademarks and trade names from BPI in July 2002 and is secured by a general security agreement. The note may not be assigned without the prior consent of BPI.

5. Acquisition of BP Rights:

On July 17, 2002, the Fund acquired the BP Rights used in the operation of the Boston Pizza restaurants in Canada for \$109,348,900 of which \$51,296,000 was paid in cash, \$58,052,900 by the issuance of 1,605,290 Class A units, 100,000,000 Class B units and 2,400,000 Class C units to BPI.

Concurrent with the acquisition of the BP Rights, the Fund granted BPI a licence to use the BP Rights for a term of 99 years for which BPI pays the Fund a royalty of four percent of the franchise revenues as reported by BPI for those restaurants included in the royalty pool, as defined in the licence and royalty agreement.

The acquisition comprised:

BP Right	\$ 109,348,900
Acquisition of Rights by Partnership:	
Cash	\$ 51,296,000
1,605,290 Class A units	16,052,900
100,000,000 Class B units	18,000,000
2,400,000 Class C units	24,000,000
	\$ 109,348,900

6. Distributable cash:

	Year ended December 31, 2003	July 17, 2002 to December 31, 2002
Earnings for the period	\$ 8,174,562	\$ 3,639,625
Amortization of deferred financing charges	30,000	12,500
Non-controlling interest (BPI)	4,208,853	1,707,104
	12,413,415	5,359,229
Distributable cash required for non-controlling interest (BPI)	(4,215,978)	(1,709,604)
Distributable cash available for Fund units	\$ 8,197,437	\$ 3,649,625
Weighted average units outstanding	7,866,079	7,690,000

Distributable cash is not an earnings measure recognized by generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures presented by other issuers.

7. Operating line of credit:

The Fund has a demand operating facility of up to \$1,000,000 to fund the working capital requirements and for general purposes. The facility bears interest at the prevailing bank prime rate plus 0.75%, is repayable on demand and has a 364-day revolving term. As at December 31, 2003 and 2002, the full amount of the facility was available. The facility is collateralized as part of the term loan (note 8).

Boston Pizza Royalties Income Fund

Notes to Consolidated Statements

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM DATE OF ESTABLISHMENT ON JULY 17, 2002 TO DECEMBER 31, 2002

8. Term loan:

The Fund has a term loan in the amount of \$5,000,000. The facility bears interest at the prevailing bank prime rate plus 0.75% and matures on July 16, 2005. A general security agreement over the assets of the Partnership is provided as security.

9. Non-controlling interest:

Non-controlling interest relates entirely to BPI's interest in the Fund as follows:

	2003	2002
Class A Boston Pizza Royalties Limited Partnership units (b)	\$ 12,272,380	\$ 16,052,900
Class B Boston Pizza Royalties Limited Partnership units (c)	18,000,000	18,000,000
Class C Boston Pizza Royalties Limited Partnership units (d)	24,000,000	24,000,000
	54,272,380	58,052,900
Non-controlling interest in earnings of the Partnership	4,208,853	1,707,104
Distributions paid to Partnership unitholders (note 1(c))	(15,543)	(776,313)
Distributions owing to Partnership unitholders included in distributions payable	(4,097,049)	(930,791)
	\$ 54,368,641	\$ 58,052,900

(a) Loans receivable from and distributions payable to Boston Pizza International Inc.:

BPI has exercised its right to receive its entitlement to monthly cash distributions from the Partnership by way of a loan. The loan to BPI and the distributions payable to BPI were settled subsequent to December 31, 2003 (note 14(c)). For purposes of financial statement presentation, the loan receivable from and related distributions payable to BPI have been presented separately as there is no legal right of offset against each of these balances. The following amounts have been paid to BPI during the period:

	2003	2002
Loans to BPI in lieu of distributions from the Partnership	\$ 3,787,587	\$ 620,527
Payment of distributions to BPI	325,807	776,313
	\$ 4,113,394	\$ 1,396,840

(b) Class A Partnership units:

BPI has the right to exchange each Class A Partnership unit it holds for one unit of the Fund ("Units") by delivering such Class A Partnership units to the Trust. Class A Partnership units carry voting rights equal to the number of Units into which such Class A Partnership units are exchangeable at the time. Subject to the prior rights of the holders of the Class C Partnership units, the holders of the Class A Partnership units will be entitled to receive a cumulative preferential cash distribution in an amount equal to the total distribution in respect of Class C Partnership units multiplied by the number of issued Class A Partnership units divided by the number of issued Partnership units. Class A Partnership units are also entitled to a pro rata share of residual distributions of the Partnership.

During the year, BPI exchanged 378,052 Class A partnership units for 378,052 units of the Fund. This exchange was recorded at the Fund's carrying value of \$10.00 per partnership unit resulting in an increase of unitholders' equity and a decrease of non-controlling interest of \$3,780,520. Following this exchange, BPI sold these units of the Fund at \$9.95 per unit to the public (note 1(c)).

(c) Class B Partnership units:

BPI has the right to exchange each Class B Partnership unit it holds for a number of Fund Units based, at any time, on a defined calculation which is based in part on the net franchise revenues from restaurants opened subsequent to July 17, 2002. Class B Partnership units held by BPI carry voting rights equal to the number of units into which such Class B Partnership units are exchangeable at that time. Subject to the prior rights of the holders of Class C Partnership units, the holders of the Class B Partnership units will be entitled to receive a cumulative preferential cash distribution

Boston Pizza Royalties Income Fund

Notes to Consolidated Statements

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM DATE OF ESTABLISHMENT ON JULY 17, 2002 TO DECEMBER 31, 2002

9. Non-controlling interest (continued):

equal to the distribution on Class C Partnership units multiplied by the number of Class B Partnership units issued, multiplied by a defined ratio which is based in part on the net franchise revenues from restaurants opened subsequent to July 17, 2002, and divided by the number of issued LP units. Class B Partnership units are also entitled to a pro rata share of residual distributions of the Partnership.

(d) Class C Partnership units:

Class C Partnership units carry no voting rights. The holders of Class C Partnership units will be entitled to receive a monthly cumulative preferential cash distribution equal to \$0.0625 per Class C Partnership unit. BPI, as holder of Class C Partnership units, will have the right to transfer such Class C Partnership units to the Trust in consideration for the assumption by the Trust of, and the concurrent release of BPI of its obligations with respect to, an amount of the indebtedness under the BP loan equal to \$10.00 for each Class C Partnership unit to be transferred.

10. Income Fund units:

The Declaration of Trust of the Fund provides that an unlimited number of Fund units may be issued. Each Fund unit is transferable and represents an equal undivided beneficial interest in any distributions of the Fund and in the net assets of the Fund. All units have equal rights and privileges. Each Fund unit entitles the holder thereof to participate equally in the allocations and distributions and to one vote at all meetings of Fund unitholders for each whole Fund unit held. The Fund units issued are not subject to future calls or assessments.

Pursuant to the Declaration of Trust, the holders, other than the Fund or its subsidiaries, of the Class A Partnership units and Class B Partnership units will be entitled to vote in all votes of Fund unitholders as if they were holders of the number of Fund units they would receive if Class A Partnership units and Class B Partnership units were exchanged into Fund units as at the record date of such votes, and will be treated in all respects as Fund unitholders for the purpose of any such votes.

Fund units are redeemable at any time at the option of the holder at a price based on market value as defined in the trust agreement, subject to a maximum of

\$50,000 in cash redemptions by the Fund in any one month. The limitation may be waived at the discretion of the Trustees of the Fund. Redemption in excess of these amounts, assuming no waiving of the limitation, shall be paid by way of distribution in specie of a pro rata number of securities of the Trust held by the Fund.

	Units	Amount
Issuance of units on July 17, 2002	7,690,000	\$ 76,900,000
Expense of the offering	—	(6,514,000)
Balance, December 31, 2002	7,690,000	70,386,000
Issuance of units on exchange of Class A partnership units(note 1(c))	378,052	3,780,520
	8,068,052	\$ 74,166,520

11. Related party transactions:

The Fund has engaged BPI to provide certain administrative services on behalf of the Fund. These services were provided by BPI for no charge.

BPI is a related party by virtue of holding certain Partnership units.

Other transactions with BPI are referred to elsewhere in these consolidated financial statements.

12. Contingency:

Boston Pizza International Inc. ("BPI") and the Fund are involved in trademark litigation with entities affiliated with McDonald's Restaurant of Canada (the "McDonalds' Group"), opposing the registration by the McDonald's Group in Canada of the Boston Market trademark. Management of BPI believes that there is a likelihood that the trademark will not be registered. Additionally, BPI and the Fund have commenced an action against the McDonald's Group to prevent them from infringing BPI's and the Fund's respective interests in the trademarks by operating Boston Market in Canada. The McDonald's Group has filed a counterclaim and a separate action challenging the validity of the registered trademark "Boston Pizza" and related trademarks under the Trade-Marks Act (Canada). Management does not believe that

Boston Pizza Royalties Income Fund

Notes to Consolidated Statements

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM DATE OF ESTABLISHMENT ON JULY 17, 2002 TO DECEMBER 31, 2002

12. Contingency (continued):

this action will succeed. However, in the event that the challenge to the Boston Pizza trademarks is successful, the Fund would lose the benefits of registration of its trademarks under the Trade-Marks Act (Canada), which may mean losing the ability to prevent others from using the registered trademarks for the goods and services for which they are registered and to prevent others from using similar or confusing trademarks or names. However, the loss of the registration under the Trade-Marks Act (Canada), would not prevent the Fund from continuing to license and use the "Boston Pizza" and related trademarks in the existing operations and geographic territories where they are presently used and from taking other measures to protect their rights in respect of, and their ability to use, the "Boston Pizza" and related trademarks, in new areas where BPI and its sub-licensees do not presently operate Boston Pizza restaurants.

13. Supplementary cash flow information:

	July 17, 2002 to	
	December 31, 2003	December 31, 2002
(a) Change in non-cash working capital:		
Accounts receivable and due from		
Boston Pizza International Inc.	\$ (11,415)	\$ (1,175,340)
Prepaid expenses	(11,933)	(43,005)
Accounts payable and accrued liabilities	(235,555)	386,515
	<u>\$ (258,903)</u>	<u>\$ (831,830)</u>

	July 17, 2002 to	
	December 31, 2003	December 31, 2002
(b) Supplementary information:		
Interest received	\$ 1,803,434	\$ 681,433
Interest paid	271,884	120,910
Non-cash financing and investing activities:		
Issuance of Fund units on acquisition of BP rights	—	58,052,900
Distributions payable to unitholders	699,496	640,577
Distributions payable to non-controlling interest	4,112,593	930,791
Receivable from Partnership unitholders for adjustment for stores added to the Royalty Pool on January 1, 2003	25,129	—
Settlement of loan to BPI with distributions payable to BPI	620,527	—

14. Subsequent events:

- (a) Annually, on January 1, the Boston Pizza restaurants in the Royalty Pool on which BPI pays a royalty to the Fund are adjusted to include the adjusted franchise revenue from new Boston Pizza restaurants opened on or before November 1 of the prior year, less franchise revenue from any Boston Pizza restaurants that have permanently closed during the year. In return for adding this net franchise revenue to the Royalty Pool, Boston Pizza receives the right to indirectly acquire additional Fund Units (the "Additional Entitlement"). The Additional Entitlement is calculated as 92.5% of the royalty revenue added to the Royalty Pool, divided by the yield of the Fund Units. Boston Pizza receives 80% of the Additional Entitlement initially, with the balance received when the actual full year performance of the new restaurants is known with certainty. Monthly distributions from the Fund are based on full Additional Entitlement, subject to adjustment on January 1 of next fiscal year when full year performance of the new restaurants is known with certainty.

Boston Pizza Royalties Income Fund

Notes to Consolidated Statements

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM DATE OF ESTABLISHMENT ON JULY 17, 2002 TO DECEMBER 31, 2002

14. Subsequent events (continued):

On January 1, 2004, 15 new Boston Pizza restaurants opened during the period from November 2, 2002 to November 1, 2003 were added to the Royalty Pool. The franchise revenue of these 15 new restaurants has been estimated at \$25.4 million annually. The total number of restaurants in the Royalty Pool has increased to 177. The yield of the Fund Units was determined to be 9.25% calculated using a weighted average unit price of \$11.03. Weighted average unit price is calculated based on the market price of the unit traded on the TSX during the period of twenty consecutive days ending on the fifth trading day before January 1, 2004. As a result of the contribution of the additional net sales to the Royalty Pool, BPI received 80% of Additional Entitlement of 738,345 Fund Units, being 6.82% of the issued and outstanding Fund Units on a fully diluted basis. BPI will also receive a proportionate increase in monthly distributions from the Fund. Including the Additional Entitlement described above, BPI has the right to exchange its units in the capital of the Fund for 2,755,358 Fund Units, representing 25.46% of the issued and outstanding Fund Units on a fully diluted basis. BPI has agreed to maintain at least a 20% ownership, direct or indirect, in the Fund until such time as there are 275 restaurants in the Royalty Pool.

- (b) On January 1, 2004, adjustments to royalty payments and Additional Entitlement were made based on the full year performance of new restaurants added to the Royalty Pool on January 1, 2003 (note 1(c)). Based on these adjustments, BPI received its remaining 20% of Additional Entitlement of 87,432 additional Fund units, 0.80% of the issued and outstanding Fund units on a fully diluted basis. BPI also repaid an amount of \$25,129 for monthly distributions to the Fund.

Following this event and the event in note 14(a), BPI now holds securities convertible into 2,842,790 Fund units which equates to 26.05% of the fully diluted units of the Fund.

- (c) On January 2, 2004, the loan to BPI and distributions payable to BPI of \$3,787,587 were settled.

Boston Pizza International Inc.

Management Discussion & Analysis

JANUARY 1, 2003 TO DECEMBER 31, 2003

FINANCIAL HIGHLIGHTS

The following table sets out selected historical information and other data of Boston Pizza International Inc. ("BPI"), which should be read in conjunction with the attached year-end consolidated financial statements of BPI.

	January 1, 2003 to December 31, 2003	September 1, 2002 to December 31, 2002	September 1, 2002 to August 31, 2002
	(in thousands of dollars)		
Restaurant System Franchise Sales ⁽¹⁾	\$ 300,513	\$ 90,811	\$ 261,501
Income Statement Data			
Franchise Fee Income	\$ 21,066	\$ 6,355	\$ 17,391
Total Revenue	30,615	9,431	22,277
Royalty expense	11,455	3,517	1,451
Administrative expenses and restaurant operating costs	14,791	4,570	14,660
Earnings	\$ 4,369	\$ 1,344	\$ 6,166

Notes:

¹ Represents the Franchise Sales of the two restaurants owned by BPI and the Franchise Sales reported to BPI by franchised Boston Pizza restaurants without audit. Franchise Sales are Gross Sales after deducting revenue from the sale of liquor, beer, wine and tobacco and revenue from BPI approved national promotions & discounts.

	December 31, 2003	December 31, 2002	August 31, 2002
	(in thousand of dollars)		
Total Assets	\$ 88,096	\$ 86,805	\$ 59,727
Total Long-term Liabilities	\$ 116,750	\$ 117,844	\$ 85,068

	Q4 2003	Q3 2003	Q2 2003	Q1 2003	Q4 2002 ²	Q3 2002
	(in thousands of dollars) Unaudited					
Restaurant System Franchise Sales ⁽¹⁾	\$79,537	\$80,075	\$74,057	\$66,844	N/A	\$74,770
Income Statement Data						
Franchise Fee Income	\$5,598	\$5,602	\$5,185	\$4,681	N/A	\$5,125
Total Revenue	7,787	8,303	7,605	6,920	N/A	7,614
Royalty expense Administration expenses and restaurant operating costs	2,915	3,059	2,851	2,630	N/A	2,284
Earnings	\$1,357	\$1,455	\$1,042	\$515	N/A	\$371

Notes:

¹ Represents the Franchise Sales of the two restaurants owned by BPI and the Franchise Sales reported to BPI by franchised Boston Pizza restaurants without audit. Franchise Sales are Gross Sales after deducting revenue from the sale of liquor, beer, wine and tobacco and revenue from BPI approved national promotions & discounts.

² In 2002, BPI made the decision to change its fiscal year-end from August 31 to December 31 to correspond with the Fund's reporting period. 2002 fourth quarter results are not available.

OVERVIEW

This Annual Report covers the period of January 1, 2003 to December 31, 2003 (the "Period"). The Management Discussion and Analysis of the results of this Period is dated April 15, 2004. A copy of this Annual Report and additional information on BPI is available at www.sedar.com or www.bpincomefund.com.

Boston Pizza International Inc. ("BPI" or the "Company") is the franchisor of the Boston Pizza concept in Canada. The Company competes in the casual dining sector of the restaurant industry and is the number one casual dining brand in Canada. With 181 restaurants stretching from Victoria to Halifax, Boston Pizza has more locations and serves more customers annually than any other casual dining concept in Canada.

The Company charges a 7% royalty fee on Franchise Sales for all full-service Boston Pizza restaurants open in Canada and a 5% royalty fee on Franchise Sales for the three Boston Pizza Quick Express restaurants that are open in Canada. BPI pays the Boston Pizza Royalties Income Fund (the "Fund") a royalty fee of 4% of Franchise Sales

Boston Pizza International Inc.

Management Discussion & Analysis

JANUARY 1, 2003 TO DECEMBER 31, 2003

OVERVIEW (continued)

of the specific royalty pool for the use of the Boston Pizza trademarks (the "BP Rights"). There were 162 restaurants in the royalty pool (the "Royalty Pool") for this Period.

On January 1 of each year ("Adjustment Date"), an adjustment is made to add to the Royalty Pool new Boston Pizza restaurants that have been open at least 60 days prior to that Adjustment Date. In return for adding this additional royalty revenue, BPI receives the right to indirectly acquire additional Fund units (the "Additional Entitlements"). The adjustment for new franchise revenues added to the Royalty Pool is designed to be accretive for Fund Unitholders. The Additional Entitlements are calculated at 92.5% of the royalty revenue added to the Royalty Pool, divided by the yield of the Fund, divided by the Weighted Average Unit Price. BPI receives 80% of the Additional Entitlements initially, with the balance received when the actual full year performance of the new restaurants is known with certainty. BPI receives 100% of distributions from the Additional Entitlements throughout the year. Once these new restaurants have been part of the Royalty Pool for a full year, an audit of the royalty revenues of these restaurants received from BPI will be performed. At such time an adjustment will be made to reconcile distributions paid to BPI and the Additional Entitlements received by BPI. On January 1, 2003 eight new restaurants were added to the Royalty Pool and BPI received the right to acquire an additional 448,273 units of the Fund. The 448,273 represents 80% of the Additional Entitlements.

BUSINESS STRATEGY

The success of Boston Pizza can be attributed to three simple underlying principles that are the foundation for all strategic decision-making – the "Three Pillars" strategy.

- **The commitment to franchisee profitability**
- **The commitment to continually enhance the brand**
- **The commitment to continually improve the customer experience**

The Company realizes that its franchisees have to be profitable to succeed. If they are successful, then Boston Pizza will be successful. To enhance profitability and to facilitate the growth of Boston Pizza, BPI aggressively enhances and promotes the Boston Pizza brand through national television and radio advertising, and national and local promotions. Both Boston Pizza franchisees and the corporate support staff

continuously find new ways to improve the customer's experience so that they will return to Boston Pizza again, and again. Management is confident that this "Three Pillars" strategy will continue to focus BPI's efforts to develop new markets and continue to strengthen Boston Pizza's position as Canada's number one casual dining brand.

The following information provides additional analysis of the operations and financial position of the Company and should be read in conjunction with the consolidated financial statements and accompanying notes. The financial statements are in Canadian dollars and have been prepared in accordance with Canadian Generally Accepted Accounting Principles. *Readers should note that the 2003 results are not directly comparable with the 2002 results due to the fact that the BPI changed its year-end in 2002 from August 31 to December 31 to coincide with the Fund's fiscal year-end. The previous period is from September 1, 2002 to December 31, 2002 (the "Partial Period").*

OPERATING RESULTS

Despite the challenges that foodservice operators faced, Boston Pizza posted positive growth in 2003. BPI's overall system-wide sales growth for the Period was 11.4%. Overall sales growth is achieved through new store openings and SSSG.

SSSG

SSSG was an industry-leading 4.1% for the Period. SSSG is a cumulative effect of increased customer traffic and increased average guest cheque. The effective marketing programs that BPI ran and the Company's unique renovation program, which saw 18 restaurants renovated, and two locations relocated were significant contributors to SSSG. SSSG also benefited from a slight menu price increase average of 2.9% in May 2003.

New Store Openings and Renovations

In 2003, 15 new Boston Pizza restaurants opened and no locations were closed. During the Period, 18 Boston Pizza restaurants were renovated and 2 locations were relocated to improved sites. Typically, locations that renovate are closed for 2-3 weeks. Boston Pizza's unique renovation program is a proven sales builder. Historically the average increase in overall sales for renovated sites has been 10% - 15% post renovation. This unique renovation program is another positive contributor to the 4.1% SSSG result that was achieved in 2003.

Boston Pizza International Inc.

Management Discussion & Analysis

JANUARY 1, 2003 TO DECEMBER 31, 2003

Revenues

BPI's revenues for the Period were \$30,614,590 and \$9,431,241 for the Partial Period in 2002. BPI's revenue is mainly derived from royalty income from franchised Boston Pizza restaurants, sales in corporately owned restaurants, initial franchise fees, franchise renewal fees, and income from its interest in the Fund.

Franchise fee income, which includes monthly franchise fees, initial franchise fees and franchise renewal fees, was \$21,066,274 for the Period compared to \$6,355,040 for the Partial Period in 2002.

Sales for corporate restaurants for the Period were \$4,266,073 and \$1,358,717 for the Partial Period in 2002.

BPI earned \$4,208,853 from its indirect interest in the Fund for the Period compared to \$1,165,932 for the Partial Period in 2002.

Other income was \$1,073,390 during the Period versus \$551,552 for the Partial Period in 2002. Other income is generated from real estate income from a joint-venture property and interest on long-term receivables from related companies. On August 31, BPI sold its 50% interest in this real estate venture to a related party for cash proceeds of \$343,317. The cash proceeds were the equivalent of 50% of the total net asset value.

Expenses

For the Period, the royalty expense for the use of the BP Rights was \$11,454,561 and \$3,517,021 for the Partial Period in 2002.

Operating expenses for the Period were \$14,791,035 and \$4,570,441 for the Partial Period in 2002. Administrative and operating expenses include salary and administrative costs associated with the services provided to franchised Boston Pizza restaurants, the operation of the two corporately owned restaurants, new Franchise Sales, and development activities.

Other Income & Expenses

Before taking into account depreciation and amortization, management bonus, amortization of deferred gain associated with the sale of the BP Rights, interest on the loan from the Fund, and interest on long-term debt, gain on the sale of Partnership units, earnings were \$4,368,994 for the Period and \$1,343,779 for the Partial Period in 2002.

Depreciation and amortization for the Period was \$444,718 and \$196,118 for Partial Period in 2002.

Management bonuses for the Period were \$1,015,249 and \$351,288 for the Partial Period in 2002. This is a discretionary expense applicable to certain management who are also shareholders of the Company and is based on several criteria including the profitability of the Company.

The amortization of the deferred gain from the IPO was \$578,340 for the Period and \$192,781 for the Partial Period in 2002. The deferred gain arose from the sale of BP Rights to the Fund and is amortized over 99 years, the term of the License and Royalty Agreement. The net deferred gain on the sale at the time of the IPO was \$91,098,899.

Interest on the \$24 million loan acquired by the Fund at the time of IPO was \$1,800,000 for the Period and \$600,000 for the Partial Period in 2002.

Interest on long-term debt for the Period was \$83,883 and \$34,876 for the Partial Period in 2002.

Given the combined effects of the above-noted factors, BPI produced earnings before income taxes of \$1,615,618 for the Period and earnings of \$354,278 for the Partial Period in 2002. After tax earnings was \$885,507 for the Period and \$208,399 for the Partial Period in 2002.

On July 15, 2003, BPI exchanged 378,052 Class A units for an equal amount of Fund units. BPI sold these Fund units to the public. At December 31, 2003 there were 8,068,052 public Fund units issued – 10,085,065 on a fully diluted basis – and BPI had a 20% indirect interest in the Fund.

Subsequent Events

Subsequent to December 31, 2003, Boston Pizza opened three new locations bringing the total number of locations open as of April 15, 2004 to 181.

On January 1, 2004, 15 new Boston Pizza restaurants were added to the Royalty Pool; the locations opened during the period November 1, 2002 to October 31, 2003. In return for adding the royalty revenue from these 15 new restaurants to the Royalty Pool, BPI received the right to acquire an additional 738,345 units of the Fund. The 738,345 represents 80% of the Additional Entitlements with the balance received when the actual full year performance of the new restaurants is known with certainty. The 738,345

Boston Pizza International Inc.

Management Discussion & Analysis

JANUARY 1, 2003 TO DECEMBER 31, 2003

Subsequent Events

Additional Entitlements represented 6.82% of the Fund units on a fully diluted basis. BPI also receives a proportionate increase in monthly distributions based on the Additional Entitlements. The calculation for the number of Additional Entitlements received by BPI is designed to be accretive to existing Fund Unitholders as the additional royalty revenues from the new restaurants are licensed to the Fund at a 7.5% discount. The estimated royalty revenue the Fund will receive in 2004 from these additional 15 restaurants is \$1,017,716. The royalty revenue for the purposes of calculating the Additional Entitlement, therefore, is \$941,387 or 92.5%. Once the actual performance of these 15 restaurants for 2004 is known, the number of Additional Entitlements will be adjusted in 2005 to reflect the actual royalty revenue received by the Fund in 2004. As of January 1, 2004 there were 177 restaurants in the Royalty Pool.

In January 2004 an audit of the royalty revenues of the 8 locations that were rolled into the Royalty Pool on January 1, 2003 was completed. The purpose of this audit was to compare actual royalty revenue from these 8 locations to the estimated amount of royalty revenue the Fund expected to receive. The result of the audit was as follows: The original royalty revenue the Fund expected to receive was \$603,440 and the actual royalty revenue that the Fund received was \$576,909. As a result, BPI made a cash payment to the Fund of \$25,129 for this nominal mismatch in royalty revenue. Since BPI only receives the right to acquire 80% of the Additional Entitlement at the Adjustment Date in 2003, BPI received the right to acquire its remaining 20% or 87,432 Additional Entitlements following this audit.

On March 8, 2004 BPI exchanged 660,622 Class A units for an equal amount of Fund units. BPI then sold these Fund units to the public. As of March 11, 2004 there were 8,728,674 Fund units issued – 10,910,842 on a fully diluted basis – and BPI had a 20% indirect interest in the Fund. BPI has committed to maintain a minimum 20% indirect interest in the Fund until there are 275 restaurants in the Royalty Pool.

LIQUIDITY & CAPITAL RESOURCES

BPI is entirely a franchised business except for two corporate restaurants. Therefore, current year capital requirements are limited to the upgrading of these two restaurants and the corporate office building and equipment requirements. To further Quebec expansion and development, BPI will be opening a corporate office and secure

a site for a corporate restaurant in Montreal in 2004. Capital requirements are estimated at \$1,000,000 for 2004. As at December 31, 2003 working capital of \$8,971,767 was available. Working capital available is more than sufficient to meet BPI's current and the upcoming capital requirements.

OUTLOOK

Boston Pizza is well positioned for future growth and should continue to strengthen its position as the number one casual dining brand in Canada. In 2004 BPI management anticipates that 15 new locations will open across Canada. The Company is on track to open 70-80 new restaurants across Canada over the next five years. Opening these new locations will support the continuing enhancement of the Boston Pizza brand. Further, Management believes that in 2004 the organization can continue to deliver industry-leading SSSG. Boston Pizza will continue its distinct renovation program that requires each location to renovate every seven years. BPI anticipates 15 locations will conduct major renovations, which will help facilitate the ongoing effort to deliver industry-leading SSSG. Management will continue to pursue further development in Western Canada, Ontario, and the Maritimes while aggressively pursuing additional opportunities in Quebec.

In the Spring of 2004 new television commercials will be produced featuring spokesperson Howie Mandel and showcasing the Boston Pizza brand. Management believes that Mr. Mandel's celebrity status will reinforce and increase awareness of the brand and have a positive effect on sales.

As with all forward-looking statements, due care and caution should be employed to ensure that appropriate interpretation is made. Please refer to note at the end of this document for further clarification.

RISKS & UNCERTAINTIES The Restaurant Industry

The performance of the BPI is dependent upon the royalty received from the Boston Pizza restaurants open in Canada. The amount of royalty received from BPI is dependent on various factors that may affect the casual dining sector of the restaurant industry. The restaurant industry generally, and in particular the casual dining sector, is intensely competitive with respect to price, service, location and food quality. Competitors include national and regional chains, as well as independently owned restaurants. If BPI and the Boston

Boston Pizza International Inc.

Management Discussion & Analysis

JANUARY 1, 2003 TO DECEMBER 31, 2003

The Restaurant Industry (continued)

Pizza franchisees are unable to successfully compete in the casual dining sector, Franchise Sales may be adversely affected; the amount of royalty reduced and the ability of BPI to pay the royalty or interest on the BP Loan may be impaired. The restaurant industry is also affected by changes in demographic trends, traffic patterns, and the type, number, and location of competing restaurants. In addition, factors such as government regulations, smoking bylaws, inflation, publicity from any food borne illnesses, increased food, labour and benefits costs, and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and therefore potentially Boston Pizza Franchise Sales. BPI's success also depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could reduce revenue and operating income, which could adversely affect revenue, the royalty and the ability of BPI to pay the royalty to the Fund or interest on the BP Loan.

Boston Chicken / Boston Market Litigation

Since 1995, BPI has been challenging Boston Chicken Inc.'s and Global Restaurant Operations of Ireland Limited's registration of the "Boston Chicken" trademark in Canada. In March 2003, the Federal Court of Appeal unanimously ordered the expungement of "Boston Chicken" from the trademark registry. The expungement of the "Boston Chicken" trademark is a significant victory because there is now only one owner (the Boston Pizza Royalties Limited Partnership) of registered trademarks using "Boston" in connection with restaurant food services in Canada. Additionally, since 1995 BPI has opposed the registration of the "Boston Market" trademark. As a result, "Boston Market" is not yet a registered trademark. BPI and/or the Partnership intend to oppose the registration of this and any other trademark by Boston Market and/or any other parties if the proposed trademark contains, among others, the word "Boston" in connection with food, food products and/or restaurant food services. In 2002 BPI and the Fund commenced legal action against Global Restaurant Operations of Ireland Limited, Boston Market Canada Company, Boston Market Corporation, and McDonald's Restaurants of Canada Limited (the "McDonald's Group") for trademark infringement over the McDonald's Group's use of "Boston Market". BPI management and the Fund intend to continue to vigorously prosecute any infringement or unauthorized use of the Boston Pizza trademarks. In the

fall of 2002 Boston Market Canada Company and Global Operations of Ireland Limited ("the Boston Market Group") issued a counterclaim and commenced a separate proceeding challenging the registration of the Boston Pizza trademarks owned by the Fund, some of which have been registered, and in use for over 30 years. BPI management believes that this is a tactical maneuver by the McDonald's Group and is unlikely to succeed. However, in the unlikely event that the challenge to the Boston Pizza trademarks is successful, the Fund would lose the benefits of registration of its trademarks under the Trade-Marks Act (Canada), which may mean losing the ability to prevent others from using the registered trademarks for the goods and services for which they are registered and to prevent others from using similar or confusing trademarks or names. However the loss of the registration under the Trade-Marks Act (Canada) would not prevent the Fund from continuing to license and use the "Boston Pizza" and related trademarks or from taking other measures to protect their rights in respect of, and their ability to use, the "Boston Pizza" and related trademarks in the existing operations and geographic territories where they are presently used and in areas where BPI and its sub-licensees do not presently operate Boston Pizza restaurants. In July 2003 the Federal Court of Canada, on an application for summary judgment brought by BPI and Boston Pizza Royalties Limited Partnership, dismissed portions of the counterclaim by the Boston Market Group, seeking to expunge the registrations of the Boston Pizza trademarks. The Federal Court dismissed the counterclaim as it relates to registered trademarks BP & Design, BP's Lounge and BP's Bistro. The Court did not dismiss the counterclaim regarding three other trademarks, including "Boston Pizza", primarily on the basis that the counterclaim raises issues that should not be resolved on a summary basis and should instead be decided at trial. BPI and the Boston Pizza Royalties Limited Partnership are in the process of appealing this decision. The parties are waiting for trial dates, none of which have been set but BPI management expects the infringement trial to commence in late 2005 or early 2006. BPI management believes that ultimately, BPI and the Fund will be successful in its litigation with the McDonald's Group, including the Boston Market Group. However, there are no assurances or certainty as to the eventual outcome of these legal proceedings.

OTHER

For a more detailed list of risks and uncertainties please refer to the Fund's Annual Information Form which is available at www.sedar.com.

Certain statements in this annual report may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this annual report such statements are only words as "may", "will", "expect", "believe", "plan", and other similar termology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this annual report. These forward-looking statements involve a number of risks and uncertainties. The following are some factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking statements: competition; changes in demographic trends; changing consumer preferences and discretionary spending patterns; changes in national and local business and economic conditions; legislation and governmental regulation; accounting policies and practices; and the results of operations and financial condition of BPI. The foregoing list of factors is not exhaustive.

Auditors' Report to the Shareholders of Boston Pizza International Inc.

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM SEPTEMBER 1, 2002 TO DECEMBER 31, 2002

YEAR ENDED AUGUST 31, 2002

We have audited the consolidated balance sheets of Boston Pizza International Inc. as at December 31, 2003 and 2002 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the year ended December 31, 2003, the period from September 1, 2002 to December 31, 2002 and for year ended August 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002, the results of its operations and its cash flows for the year ended December 31, 2003, the period from September 1, 2002 to December 31, 2002 and for the year ended August 31, 2002 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Vancouver, Canada

February 13, 2004

Boston Pizza International Inc.

Consolidated Balance Sheets

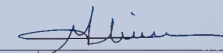
DECEMBER 31, 2003 AND DECEMBER 31, 2002

	December 31, 2003	December 31, 2002
Assets		
Current assets:		
Cash	\$ 9,178,657	\$ 2,445,985
Accounts receivable (note 17)	4,877,508	3,808,266
Income taxes receivable	373,498	—
Prepaid expenses	612,002	641,033
Current portion of long-term receivables	28,550	6,255,789
Distributions receivable from Boston Pizza Royalties Limited Partnership (note 7)	4,097,048	930,791
Future income taxes	67,662	143,055
	18,861,427	14,598,417
Long-term receivables (note 8)	16,876,102	16,625,615
Long-term investments (note 6)	38,062,826	40,260,926
Capital assets (note 9)	1,909,113	2,619,911
Deferred charges (note 10)	99,748	170,505
Future income taxes (note 13)	12,286,461	12,529,198
	\$ 88,095,677	\$ 86,804,572
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities (note 17)	\$ 4,635,615	\$ 4,486,544
Income taxes payable	63,060	—
Loan from Boston Pizza Royalties Limited Partnership (note 7)	3,787,587	620,527
Current portion of deferred revenue	1,104,745	971,533
Current portion of long-term debt	298,653	728,311
	9,889,660	6,806,915
Long-term debt (note 11)	317,125	615,778
Deferred revenue	2,143,520	2,393,645
Loan from the Boston Pizza Royalties Income Fund (note 5)	24,000,000	24,000,000
Long term payables (note 12)	203,263	—
Deferred gain on disposition of intangible assets (note 5)	90,086,080	90,834,840
Shareholders' deficiency:		
Share capital (note 14)	100	100
Retained earnings (deficit)	(38,544,071)	(37,846,706)
	(38,543,971)	(37,846,606)
	\$ 88,095,677	\$ 86,804,572
Commitments (note 15)		
Contingent liabilities (note 16)		
Subsequent events (note 20)		

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board


Jim Treliving


George Melville

Boston Pizza
International Inc.

Consolidated Statements
of Operations and Retained
Earnings (Deficit)

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM SEPTEMBER 1, 2002 TO DECEMBER 31, 2002

YEAR ENDED AUGUST 31, 2002

	Year ended December 31, 2003	Period from Sept. 1, 2002 to December 31, 2002	Year ended August 31, 2002
Franchise fee income	\$ 21,066,274	\$ 6,355,040	\$ 17,390,579
Sales – company restaurants	4,266,073	1,358,717	4,278,166
Equity income (note 6)	4,208,853	1,165,932	506,650
Other	1,073,390	551,552	101,830
	30,614,590	9,431,241	22,277,225
Royalty expense (notes 5 and 15(b))	11,454,561	3,517,021	1,451,098
Administrative expenses and restaurant operating costs (note 17)	14,791,035	4,570,441	14,659,546
Earnings before undernoted	4,368,994	1,343,779	6,166,581
U.S. territorial development expense (note 4)	—	—	4,211,365
Depreciation and amortization	444,718	196,118	665,276
Management bonus (note 17)	1,015,249	351,288	1,933,390
Amortization of deferred gain (note 5)	(578,340)	(192,781)	(71,278)
Interest on loan from the Boston Pizza Royalties Income Fund (notes 5 and 17)	1,800,000	600,000	222,750
Interest on long-term debt	83,883	34,876	275,280
Gain on sale of Partnership units	(12,134)	—	—
Earnings (loss) before income taxes	1,615,618	354,278	(1,070,202)
Income taxes (note 13):			
Current (recovery)	(5,147)	152,073	5,494,237
Future (recovery)	735,258	(6,194)	(5,454,874)
	730,111	145,879	39,363
Earnings (loss) for the period	885,507	208,399	(1,109,565)
Dividends paid	(2,000,000)	—	(45,103,990)
Retained earnings (deficit), beginning of period	(37,846,706)	(38,047,163)	1,369,763
Refundable dividend tax (note 13)	417,128	(7,942)	328,113
Dividend refund	—	—	6,468,516
Deficit, end of period	\$(38,544,071)	\$(37,846,706)	\$(38,047,163)

See accompanying notes to consolidated financial statements.

Boston Pizza International Inc.

Consolidated Statements of Cash Flows

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM SEPTEMBER 1, 2002 TO DECEMBER 31, 2002

YEAR ENDED AUGUST 31, 2002

	Year ended December 31, 2003	Period from Sept. 1, 2002 to December 31, 2002	Year ended August 31, 2002
Cash provided by (used in):			
Operations:			
Net earnings (loss)	\$ 885,507	\$ 208,399	\$ (1,109,565)
Items not affecting cash:			
Depreciation	411,462	130,508	479,436
Future income taxes	735,258	(6,194)	(5,456,064)
Amortization of deferred charges	33,256	65,610	185,840
Amortization of deferred gain on disposition of intangible assets (note 5)	(578,340)	(192,781)	(71,278)
Equity income	(4,208,853)	(1,165,932)	(506,650)
Distributions by Boston Pizza Royalties Limited Partnership	325,807	310,264	466,069
Gain on sale of Boston Pizza Royalties Limited Partnership units	(12,134)		
Change in non-cash working capital items (note 19(a))	(1,982,007)	(7,395,819)	8,447,665
	(4,390,044)	(8,045,945)	2,435,453
Investments:			
Changes in long-term receivables	5,976,752	2,793,371	(20,459,459)
Sale of Fund Units, net of transaction costs of \$15,122	3,746,495	—	—
Proceeds on sale of a subsidiary, net of cash disposed of (note 3)	342,769	—	—
Purchase of capital assets, net	(433,660)	(109,919)	(450,563)
Cash proceeds from sale of intangible assets (note 5)	—	—	51,296,000
Additions to deferred charges	—	—	(60,020)
Costs incurred on sale of intangible assets	—	—	(250,000)
Investment in BP Limited Partnership Holding Inc.	—	(157,670)	—
Investment in BP GP	—	(20)	—
	9,632,356	2,525,762	30,075,958
Financing:			
Bank indebtedness	—	—	(3,811,889)
Loan from Boston Pizza Royalties Limited Partnership	3,787,587	620,527	—
Proceeds from long-term debt	—	—	949,626
Repayment of long-term debt	(297,227)	(97,701)	(1,209,020)
Payment of dividends	(2,000,000)	—	(45,103,990)
Loan from the Boston Pizza Royalties Income Fund (note 5)	—	—	24,000,000
	1,490,360	522,826	(25,175,273)
Increase (decrease) in cash	6,732,672	(4,997,357)	7,336,138
Cash, beginning of period	2,445,985	7,443,342	107,204
Cash, end of period	\$ 9,178,657	\$ 2,445,985	\$ 7,443,342

See supplementary cash flows information (note 19(b))

See accompanying notes to consolidated financial statements.

Boston Pizza International Inc.

Notes to Consolidated Statements

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM SEPTEMBER 1, 2002 TO DECEMBER 31, 2002

YEAR ENDED AUGUST 31, 2002

1. Nature of operations:

Boston Pizza International Inc. (the "Company") was incorporated on May 26, 1982 under the laws of British Columbia and continued under the Canada Business Corporations Act on August 26, 2002. Its principal business activity is the operation and franchising of Boston Pizza restaurants in Canada. The Company initially focused on the growth of its business in Western Canada and is currently in the process of developing its Eastern Canada market. The United States market is also in the process of being developed through a limited partnership arrangement which was transferred to a related party effective September 1, 2002 (note 4).

2. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

These consolidated financial statements include the accounts of the following companies, after elimination of all material intercompany balances and transactions:

Boston Pizza International Inc. and subsidiaries:	
Lansdowne Holdings Ltd.	100%
Boston Pizza (Asia) Ltd.	75%
Boston's The Gourmet Pizza, Inc.	100%
Winston Churchill Pizza Ltd.	100%

(b) Inventory:

Inventory of supplies is valued at the lower of cost and replacement cost.

(c) Capital assets:

Capital assets are recorded at cost less accumulated depreciation.

(d) Depreciation and amortization:

The Company provides for depreciation of capital assets and amortization of deferred charges over their estimated useful lives as follows:

Asset	Basis	Rate
Building	Declining balance	4%
Office furniture and equipment	Declining balance or straight-line	20% to 50%
Office furniture and equipment under capital lease	Straight-line at various rates	up to 15 years
Leasehold improvements	Straight-line	term of the lease
Tenant inducement costs	Straight-line	10 years
Automobile	Declining balance	30%

(e) Revenue recognition and deferred revenue:

(i) Sales – company restaurants:

Revenue from restaurant operations is recorded when services are rendered.

(ii) Franchise fee income:

Area franchise fees:

Area franchise fee deposits are deferred until the agreed number of franchisee-owned restaurants are opened. The area franchise fee is expected to match costs incurred by the Company during the pre-opening period and is amortized into income as restaurants are opened. In the event that the required number of restaurants are not opened during the specified time period, the deposit becomes non-refundable and is recognized as income.

Monthly franchise fee:

Monthly franchise fees are recorded as they are earned, net of any allowance for doubtful accounts.

Franchise fee deposits:

Franchise fee deposits are presented net of expenses incurred relating to the sale of the franchise. Such amounts are deferred and recorded as a liability until the franchise commences operations, at which time the net amounts are recorded as initial franchise fees.

Boston Pizza International Inc.

Notes to Consolidated Statements

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM SEPTEMBER 1, 2002 TO DECEMBER 31, 2002

YEAR ENDED AUGUST 31, 2002

2. Significant accounting policies (continued):

(iii) Supplier contributions:

The Company receives supplier contributions from franchisee suppliers to be used for various franchise activities. Amounts received in advance of the expenditures are deferred and either netted against the actual costs incurred in the year of the applicable expense or are amortized over the period of the contribution agreement.

(f) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(ff) Income taxes (continued):

The refundable portion of taxes on investment income is charged to retained earnings. The recovery of refundable taxes previously charged to retained earnings is credited to retained earnings in the period it becomes receivable.

(gg) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, balances with banks, and short-term investments of three months or less.

(h) Restaurant locations – Canada:

	December 31, 2003	December 31, 2002	August 31, 2002
Company owned restaurants included in the Royalty Pool	2	2	2
Franchised restaurants included in the Royalty Pool	160	152	152
	162	154	154
Franchised restaurants excluded from the Royalty Pool	16	9	8
	178	163	162

(ij) Investment in BP International Rights Holdings Inc.:

As part of the sale of intangible assets (note 5), the Company transferred to BP International Rights Holdings Inc. ("IP Co") (a company controlled by the ultimate shareholders of the Company) certain intellectual property ("the Operating Systems") in exchange for preferred shares of IP Co.

The Operating Systems consist of processes, procedures, and all other intellectual property inherent to the Operating Systems for use outside of Canada.

(jj) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the valuation of accounts receivable and long-term receivables, capital assets, future income tax benefits and deferred charges.

Boston Pizza International Inc.

Notes to Consolidated Statements

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM SEPTEMBER 1, 2002 TO DECEMBER 31, 2002

YEAR ENDED AUGUST 31, 2002

2. Significant accounting policies (continued):

(k) Goodwill:

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. On an ongoing basis, management reviews the valuation and amortization of goodwill, taking into consideration any events and circumstances which might have impaired its carrying value.

(l) Financial instruments:

(i) Fair values:

The carrying values of cash and bank indebtedness, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of the instruments. The interest bearing portion of the long-term receivables, long-term debt and loan from the Boston Pizza Royalties Income Fund bear interest at rates that, in management's opinion, approximate the current interest rates and therefore approximate their fair value. Included in long-term receivables are non-interest bearing advances to related companies totaling \$5,847,428 (2002 – \$5,568,391), accordingly management has not determined the fair value of these advances.

(ii) Credit risk:

The distribution of the Company's franchisees and suppliers and the business risk management procedures have the effect of avoiding any concentration of credit risk.

3. Sale of subsidiary:

On August 31, 2003, the Company sold its 50% interest in subsidiary to a related party for total cash proceeds of \$343,317. The assets and liabilities disposed of are as follows:

Cash	\$	548
Other current assets		13,486
Capital and other long-term assets		761,166
		775,200
Current liabilities		750
Long-term debt		431,133
Net assets	\$	343,317

4. Transfer of investment in Limited Partnership:

The Company had a majority interest in Boston Pizza Restaurant LP (the "Limited Partnership") effective September 1, 2000. Since the Limited Partnership is in the process of developing its market and concept in the United States the Company expenses these costs, net of applicable franchise fee income, as incurred. Effective September 1, 2002, the Company transferred its 96.5% Limited Partnership interest to BP Limited Partnership Holdings Inc., a related party for a purchase consideration of 1,000 preferred shares of BP Limited Partnership Holdings Inc. The assets and liabilities transferred were as follows:

Net working capital, including cash of \$157,670	\$	(67,968)
Capital assets		85,053
Net due from related parties		225,463
	\$	242,548

5. Sale of intangible assets:

On July 17, 2002, the Boston Pizza Royalties Income Fund (the "Fund") successfully completed an offering of units. A portion of the net proceeds of the offering were used by the Fund to indirectly acquire through an interest in Boston Pizza Royalties Limited Partnership (the "Partnership") all rights in Canada and to certain trademarks, pending trademark applications, unregistered trademarks used in the business of the Company, trade names and in all goodwill associated with those trade names, owned by the Company (collectively, the "BP Rights"). The Partnership acquired the BP Rights from the Company in exchange for cash and by issuing partnership interests. The Partnership and the Company entered into a licence and Royalty agreement (the "Licence and Royalty Agreement") to allow the Company the Canadian use of the BP Rights for a term of 99 years, for which the Company will pay a royalty equal to 4% of the franchise revenues (as defined) of certain restaurants located in Canada (the "Royalty Pool"). The proceeds received on the sale of the BP Rights by the Company to the Partnership, a partnership ultimately controlled by the Fund, were \$109,348,900, consisting of \$51,296,000 in cash and \$58,052,900 in partnership units. The proceeds and resulting gain are as follows:

Boston Pizza International Inc.

Notes to Consolidated Statements

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM SEPTEMBER 1, 2002 TO DECEMBER 31, 2002

YEAR ENDED AUGUST 31, 2002

5. Sale of intangible assets (continued):

Initial cash received on sale	\$ 51,296,000
1,605,290 Class A units of the Partnership	16,052,900
2,400,000 Class C units of the Partnership	24,000,000
	91,348,900
100,000,000 Class B units of the Partnership	18,000,000
Less: Class B units received for future stores	(18,000,000)
	91,348,900
Less:	
Book value of intangible assets and disposition costs	(250,001)
Amortization of deferred gain from July 1, 2002 to December 31, 2002	(264,059)
Balance, December 31, 2002	90,834,840
100,000,000 Class B units of the Partnership (a)	18,000,000
Less: Class B units received for future stores (a)	(16,560,000)
	92,274,840
Amortization of deferred gain for 2003	(578,340)
Long-term incentive plan (b)	(1,610,420)
Balance, December 31, 2003	\$ 90,086,080

- (a) On January 1, 2003, eight new Boston Pizza restaurants opened during the period from May 1, 2002 to November 1, 2002 were added to the Royalty Pool of the Fund. As a result of the additional sales created by these new stores, BPI received additional entitlement equivalent to 448,273 Fund units. BPI has also received a proportionate increase in monthly distribution from the Fund. BPI's investment in the Partnership and the related deferred gain have been increased by \$1,440,000 as a result of this transaction. Value of Class B units for future stores also decreased to \$16,560,000 from \$18,000,000.
- (b) During the year, the Company introduced a long-term incentive plan ("LTIP") for its employees. The incentive pool is determined based on the number of restaurants

added to the Royalty Pool of the Fund during the twelve months ended October 31 of each year. Adjustments are made to the incentive pool based on certain performance criteria. The awards to Executive employees are paid over a three year period and awards to other employees are paid as awards are declared. Total award for 2003 of \$1,610,420 is applied against the deferred gain related to Class B units.

6. Long-term investments:

The Company's investment in the Partnership is comprised of:

	December 31, 2003	December 31, 2002
Boston Pizza Royalties Limited Partnership:		
1,227,238 (2002 – 1,605,290)		
Class A units of the Partnership (a)	\$ 12,318,539	\$ 16,052,900
100,000,000 Class B units of the Partnership (b)	18,000,000	18,000,000
2,400,000 Class C units of the Partnership (c)	24,000,000	24,000,000
Equity income to date	5,881,435	1,672,582
Distributions from the Partnership to date	(5,819,716)	(1,707,124)
	54,380,258	58,018,358
Portion of deferred gain relating to Class B units received for future restaurants (note 5(a))	(16,560,000)	(18,000,000)
Net investment in Partnership	37,820,258	40,018,358
Investment in BP Limited Partnership Holding Inc.	242,548	242,548
Investment in BP GP	20	20
	\$ 38,062,826	\$ 40,260,926

Boston Pizza International Inc.

Notes to Consolidated Statements

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM SEPTEMBER 1, 2002 TO DECEMBER 31, 2002

YEAR ENDED AUGUST 31, 2002

6. Long-term investments (continued):

(a) Class A Partnership units rights and attributes:

The Company has the right to exchange each Class A unit it holds for one unit of the Fund ("Units") by delivering such Class A Partnership units to the Boston Pizza Holdings Trust (the "Trust"). Class A Partnership units carry voting rights equal to the number of Units into which such Class A Partnership units are exchangeable at the time. Subject to the prior rights of the holders of the Class C Partnership units, the holders of the Class A Partnership units will be entitled to receive a cumulative preferential cash distribution in an amount equal to the total distribution in respect of Class C Partnership units multiplied by the number of issued Class A Partnership units divided by the number of issued Partnership units. Class A Partnership units are also entitled to a pro rata share of residual distributions of the Partnership.

On July 15, 2003, the Company exchanged 378,052 Class A partnership units for an equal amount of Fund units. Following this exchange, BPI sold their units of the Fund at \$9.95 per unit to the public for total proceeds of \$3,761,617. Gain on sale of units was \$12,134, net of transactions cost of \$15,122. This resulted in a reduction of Class A units from 1,605,290 units to 1,227,238.

(b) Class B Partnership units rights and attributes:

Class B Partnership units were issued for the right to receive a royalty based on the franchise revenue associated with restaurants to be opened in the future and their fair market value is based on the estimated future revenues.

The Company has the right to exchange each Class B Partnership unit it holds for a number of Units based, at any time, on a defined calculation which is based on the net franchise revenues from restaurants opened subsequent to July 17, 2002 and restaurants open for less than twelve months at April 30, 2002. Class B Partnership units held by the Company carry voting rights equal to the number of Units into which such Class B Partnership units are exchangeable at that time.

Subject to the prior rights of the holders of Class C Partnership units, the holders of the Class B Partnership units will be entitled to receive a cumulative preferential cash distribution equal to the distribution on Class C Partnership units multiplied by the number of Class B Partnership units issued, multiplied by a defined ratio which

is based in part on the net franchise revenues from restaurants opened subsequent to July 17, 2002, and divided by the number of issued LP units. Class B Partnership units are also entitled to a pro rata share of residual distributions of the Partnership.

(c) Class C Partnership units rights and attributes:

Class C Partnership units carry no voting rights. The holders of Class C Partnership units will be entitled to receive a monthly cumulative preferential cash distribution equal to \$0.0625 per Class C Partnership unit. The Company, as holder of Class C Partnership units, will have the right to transfer such Class C Partnership units to the Trust in consideration for the assumption by the Trust of, and the concurrent release of the Company of its obligations with respect to, an amount of the indebtedness under the BP loan equal to \$10.00 for each Class C Partnership unit to be transferred.

7. Distributions receivable from Boston Pizza Royalties Limited Partnership:

The Company has exercised its right to receive its entitlement to monthly cash distributions from the Partnership by way of a loan. The loan from the Partnership and distribution receivable from the Partnership were settled subsequent to December 31, 2003 (note 20(c)). For purposes of financial statement presentation, the loan payable and related distributions receivable from the Partnership have been presented separately as there is no legal right to offset against each of these balances. The following amounts were received by the Company during the year from the Partnership:

	Year ended December 31, 2003	Period from Sept. 1, 2002 to December 31, 2002
Loan from the Partnership	\$ 3,787,587	\$ 620,527
Distributions received from the Partnership	325,807	310,264

Boston Pizza International Inc.

Notes to Consolidated Statements

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM SEPTEMBER 1, 2002 TO DECEMBER 31, 2002

YEAR ENDED AUGUST 31, 2002

8. Long-term receivables:

Long-term receivables consists of the following:

	December 31, 2003	August 31, 2002
Debentures receivable, bearing interest between prime plus 2% and 11% per annum, receivable in blended monthly payments of approximately \$2,800	\$ 57,224	\$ 83,179
Advances to companies owned by shareholders of the Company, non-interest bearing, unsecured with no specified terms of repayment	5,847,428	5,568,391
Promissory notes to companies owned by the shareholders of the Company, bearing interest at 7.6%, unsecured with no specific terms of repayment	11,000,000	17,229,834
	16,904,652	22,881,404
Current portion	28,550	6,255,789
	\$ 16,876,102	\$ 16,625,615

9. Capital assets:

	Cost	Accumulated amortization	Net book value
December 31, 2003			
Office furniture and equipment	\$ 3,171,378	\$ 2,272,903	\$ 898,475
Office furniture and equipment under capital lease	214,041	144,256	69,785
Leasehold improvements	1,872,986	945,081	927,905
Auto	24,176	11,228	12,948
	\$ 5,282,581	\$ 3,373,468	\$ 1,909,113

	Cost	Accumulated amortization	Net book value
December 31, 2003			
Land	\$ 423,055	\$ —	\$ 423,055
Building	393,122	83,180	309,942
Office furniture and equipment	2,940,157	2,012,436	927,721
Office furniture and equipment under capital lease	210,263	122,254	88,009
Leasehold improvements	1,670,704	818,017	852,687
Auto	24,176	5,679	18,497
	\$ 5,661,477	\$ 3,041,566	\$ 2,619,911

Boston Pizza International Inc.

Notes to Consolidated Statements

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM SEPTEMBER 1, 2002 TO DECEMBER 31, 2002

YEAR ENDED AUGUST 31, 2002

10. Deferred charges:

December 31, 2003	Cost	Accumulated amortization	Net book value
Deferred finance charges	\$ 60,000	\$ 17,000	\$ 43,000
Goodwill and other	3,667,027	3,610,279	56,748
	\$ 3,727,027	\$ 3,627,279	\$ 99,748

December 31, 2003	Cost	Accumulated amortization	Net book value
Tenant inducement	\$ 100,000	\$ 55,833	\$ 44,167
Deferred finance charges	60,000	5,000	55,000
Goodwill and other	3,667,027	3,595,689	71,338
	\$ 3,827,027	\$ 3,656,522	\$ 170,505

11. Long-term debt:

Long-term debt consists of:

	December 31, 2003	December 31, 2002
HSBC Bank of Canada demand, non-revolving loan bearing interest at 5.25% per annum, due January 1, 2007, secured by a first charge on land and building	\$ —	\$ 446,493
GE Capital Canada Equipment Financing Inc. term loan bearing interest at 8.2% per annum, due September 3, 2006, repayable in blended monthly instalments of \$16,070, secured by a first charge on leaseholds and equipment	473,318	620,713
GE Capital Canada Equipment Financing Inc. term loan bearing interest at Government of Canada Bond rate plus 3% per annum, repayable by blended monthly payments of \$8,159, due November 5, 2004, secured by restaurant equipment	85,860	171,866
Obligation under equipment financing arrangements	56,600	105,017
	615,778	1,344,089
Current portion	298,653	728,311
	\$ 317,125	\$ 615,778

Boston Pizza International Inc.

Notes to Consolidated Statements

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM SEPTEMBER 1, 2002 TO DECEMBER 31, 2002

YEAR ENDED AUGUST 31, 2002

11. Long-term debt (continued):

The obligations under equipment finance arrangements are secured by specific assets of the Company.

Term loans are secured by a general assignment of book debts and certain guarantees from the Company, shareholders and related companies.

Principal repayments on long-term debt and capital lease obligations for the next five years ending December 31 are as follows:

2004	\$	298,653
2005		177,320
2006		139,805
2007		—
2008 and thereafter		—
	\$	615,778

12. Long-term payables:

	December 31, 2003	December 31, 2002
Long-term portion of bonus payable	\$ 131,327	\$ —
Tenant inducement	71,936	—
	\$ 203,263	\$ —

13. Income taxes:

Income tax expense as reported differs from the amount that would be computed by applying the combined Federal and provincial statutory income tax rates to earnings before income taxes. The reasons for the differences are as follows:

	December 31, 2003	December 31, 2002	August 31, 2002
Earnings (loss)			
before income taxes	\$ 1,615,618	\$ 354,278	\$(1,070,202)
Combined Canadian federal and provincial tax rates	37.29%	38.02%	40.16%
	602,464	134,696	(429,793)
Increased (reduced) by:			
Amounts not deductible	75,842	24,526	189,632
Tax benefit (expense) charged to retained earnings			
for refundable tax	417,128	(7,942)	328,113
Difference between statutory rate and actual rate	(378,102)	(18,377)	(107,924)
Other	12,779	12,976	2,930
Non-controlling interest of Limited Partnership	—	—	56,405
Income tax expense	\$ 730,111	\$ 145,879	\$ 39,363

Boston Pizza International Inc.

Notes to Consolidated Statements

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM SEPTEMBER 1, 2002 TO DECEMBER 31, 2002

YEAR ENDED AUGUST 31, 2002

13. Income taxes (continued):

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities are:

	December 31, 2003	December 31, 2002
Future income tax assets (liabilities):		
Deferred gain	\$ 21,647,701	\$ 21,954,781
Investment in Partnership (note 4)	(9,660,918)	(9,825,070)
Investments in related companies	—	29,347
Losses carried forward	2,947	18,119
Capital assets	(35,535)	(33,354)
Deferred revenue	175,579	313,009
Goodwill and other intangibles	224,349	215,421
	12,354,123	12,672,253
Current future income tax assets	67,662	143,055
Non-current future income tax assets	\$ 12,286,461	\$ 12,529,198

14. Share capital:

Authorized:

10,000 common shares of no par value

	December 31, 2003	December 31, 2002
Issued:		
100 common shares	\$ 100	\$ 100

15. Commitments:

- (a) The Company is committed under operating lease contracts for office space, restaurant space and advertising contracts. The minimum annual rental payments under these leases for the next five years ending December 31 are as follows:

2004	\$ 1,301,036
2005	1,115,069
2006	944,654
2007	733,023
2008	733,023

- (b) Pursuant to the License and Royalty Agreement (note 5), system sales from the restaurant locations included in Royalty Pool for the current year ended December 31, 2003 amounted to \$286,364,021 (period from September 1, 2002 to December 31, 2002 – \$87,925,526; year ended August 31, 2002 – \$36,277,450) and the royalty paid for the year amounted to \$11,454,561 (period from September 1, 2002 to December 31, 2002 – \$3,517,021; year ended August 31, 2002 – \$1,451,098).

16. Contingent liabilities:

- (a) The Company guarantees lease payments totalling \$180,000 for one of its franchisees.
- (b) The Company and the Fund are involved in trademark litigation with entities affiliated with McDonald's Restaurant of Canada (the "McDonalds' Group"), opposing the registration by the McDonald's Group in Canada of the Boston Market trademark. Management of the Company believes that there is a likelihood that the trademark will not be registered. Additionally, the Company and the Fund have commenced an action against the McDonald's Group to prevent them from infringing the Company's and the Fund's respective interests in the trademarks by operating Boston Market in Canada. The McDonald's Group has filed a counterclaim and a separate action challenging the validity of the registered trademark "Boston Pizza" and related trademarks under the Trade-Marks Act (Canada). Management does not believe that this

Boston Pizza International Inc.

Notes to Consolidated Statements

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM SEPTEMBER 1, 2002 TO DECEMBER 31, 2002

YEAR ENDED AUGUST 31, 2002

16. Contingent liabilities (continued):

action will succeed. However, in the event that the challenge to the Boston Pizza trademarks is successful, the Company and the Fund would lose the benefits of registration of its trademarks under the Trade-Marks Act (Canada), which may mean losing the ability to prevent others from using the registered trademarks for the goods and services for which they are registered and to prevent others from using similar or confusing trademarks or names. However, the loss of the registration under the Trade-Marks Act (Canada), would not prevent the Company and the Fund from continuing to license and use the "Boston Pizza" and related trademarks in the existing operations and geographic territories where they are presently used and from taking other measures to protect their rights in respect of, and their ability to use, the "Boston Pizza" and related trademarks, in new areas where the Company and its sub-licensees do not presently operate Boston Pizza restaurants.

17. Related party transactions:

Interest received on advances to a company under common control totalled \$301,742 (December 2002 – \$273,418).

Included in accounts payable and accrued liabilities is \$892,569 (December 2002 – \$702,230) payable to the Company's parent company in respect of outstanding trade payables. Included in accounts receivable is \$741,530 and \$13,913 (December 2002 \$482,665 and \$18,498) due from companies under common control and the Fund, respectively. Also included in accounts receivable is \$150,980 (2002 – \$52,587) for administrative services provided to a related party.

Included in administrative expenses and restaurant operating costs are amounts paid by the Company relating to rent and management fees and bonuses to companies under common control totaling \$337,056 (2002 – \$120,216) and \$3,002,951 (2002 – \$1,146,000), respectively. Additionally, included in management fees and bonuses is \$615,249 (2002 – \$351,288) paid to the Company's parent for services rendered.

The Company's interest in the Limited Partnership arose out of a partnership with a company under common control.

Long-term receivables include amounts owing from various related parties (note 8).

The Company paid interest on the loan from the Fund of \$1,800,000 (2002 – \$600,000).

18. Segment reporting:

Management has determined the Company operates in one segment, which involves franchise fee income, sales from company restaurants and rental income. Substantially all of the Company's assets and revenues are located or earned in Canada, the Company's U.S. territorial development expense is incurred substantially in the U.S. and these operations were transferred to a related party (note 4).

19. Supplementary cash flows information:

(a) Change in non-cash working capital:

	Year ended December 31, 2003	Period from September 1, 2002 to December 31, 2002	Year ended August 31, 2002
Accounts receivable	\$(1,074,040)	\$ 607,053	\$(1,415,601)
Income tax receivable	373,498	(373,498)	325,545
Prepaid expenses	29,724	(349,590)	18,381
Accounts payable and accrued liabilities	(1,460,599)	(1,048,932)	2,149,738
Income tax payable	63,060	(5,510,686)	5,510,686
Deferred revenue	(116,913)	(720,166)	1,858,916
Long-term payables	203,263	—	—
	\$(1,982,007)	\$ (7,395,819)	8,447,665

Boston Pizza International Inc.

Notes to Consolidated Statements

YEAR ENDED DECEMBER 31, 2003

PERIOD FROM SEPTEMBER 1, 2002 TO DECEMBER 31, 2002

YEAR ENDED AUGUST 31, 2002

19. Supplementary cash flows information (continued):

(b) Supplementary information:

	Year ended		Period from
	December 31, 2003		Sept. 1, 2002 to
	December 31, 2002		December 31, 2002
Cash paid for:			
Interest	\$ 1,888,820	\$ 634,876	\$ 498,030
Income taxes	—	5,510,686	—
Non-cash transactions:			
Investment in the Boston Pizza Royalties Limited Partnership in exchange for partial payment on sale of intangible assets (note 6)	—	—	58,052,900
Long-term incentive plan payment included in accounts payable (note 5(b))	1,610,420	—	—
Settlement of loan from the Partnership with distributions receivable from the Partnership	620,527	—	—

20. Subsequent events:

- (a) On January 1, 2004, 15 new Boston Pizza restaurants opened during the period from November 2, 2002 to November 1, 2003 were added to the Royalty Pool. The franchise revenue of these 15 new restaurants has been estimated at \$25.4 million annually. The total number of restaurants in the Royalty Pool has increased to 177. The yield of the Fund Units was determined to be 9.25% calculated using a weighted average unit price of \$11.03. Weighted average unit price is calculated based on the market price of the unit traded on the TSX during the period of twenty consecutive days ending on the fifth trading day before January 1, 2004. As a result of the contribution of the additional net sales to the Royalty Pool, the Company received 80% of Additional Entitlement of 738,345 Fund Units, being 6.82% of the issued and outstanding Fund Units on a fully diluted basis. The Company will also receive a proportionate increase in monthly distributions from the Fund. Including the Additional Entitlement described above, the Company has the right to exchange its units in the capital of the Fund for 2,755,358 Fund Units, representing 25.46% of the issued and outstanding Fund Units on a fully diluted basis. The Company has agreed to maintain at least a 20% ownership, direct or indirect, in the Fund until such time as there are 275 restaurants in the Royalty Pool.
- (b) On January 1, 2004, adjustments to royalty payments and Additional Entitlement were made based on the full year performance of eight restaurants added to the Royalty Pool on January 1, 2003. Based on these adjustments, the Company received its remaining 20% of Additional Entitlement of 87,432 additional Fund units, 0.80% of the issued and outstanding Fund units on a fully diluted basis. The Company also repaid an amount of \$25,129 for monthly distributions to the Fund.
- Following this event and the event in note 19(a), BPI now holds securities convertible into 2,842,790 Fund units which equates to 26.05% of the fully diluted units of the Fund.
- (c) On January 2, 2004, the loan from the Partnership and distributions receivable from the Partnership of \$3,787,587 were settled.

Unitholder Information Boston Pizza Royalties Income Fund

Corporate Office

5500 PARKWOOD WAY RICHMOND, BC, V6V 2M4

Trustees of the Fund

JOHN L. COWPERTHWAITE

Retired Partner Ernst & Young LLP

WILLIAM C. BROWN

Corporate Director

ROBERT L. PHILLIPS

President & Chief Executive Officer BCR Group of Companies

Transfer Agent

COMPUTERSHARE TRUST COMPANY OF CANADA

Stock Exchange Listing

TORONTO STOCK EXCHANGE: BPF.UN

Auditors

KPMG LLP

Corporate Counsel

BLG LLP

Registered and Records Office

#1200 – 200 BURRARD STREET, VANCOUVER, BC, V7X 1T2

Directors of Boston Pizza GP Inc.

- the General Partner of Boston Pizza

Royalties Limited Partnership

JOHN L. COWPERTHWAITE

DIRECTOR*

Retired Partner Ernst & Young LLP

WILLIAM C. BROWN

DIRECTOR*

Corporate Director

ROBERT L. PHILLIPS

DIRECTOR*

President & Chief Executive Officer BCR Group of Companies

MIKE CORDOBA

DIRECTOR

Chief Executive Officer Boston Pizza International Inc.

MARK POWELL

DIRECTOR

Chief Financial Officer Boston Pizza International Inc.

*AUDIT COMMITTEE AND GOVERNANCE COMMITTEE MEMBER

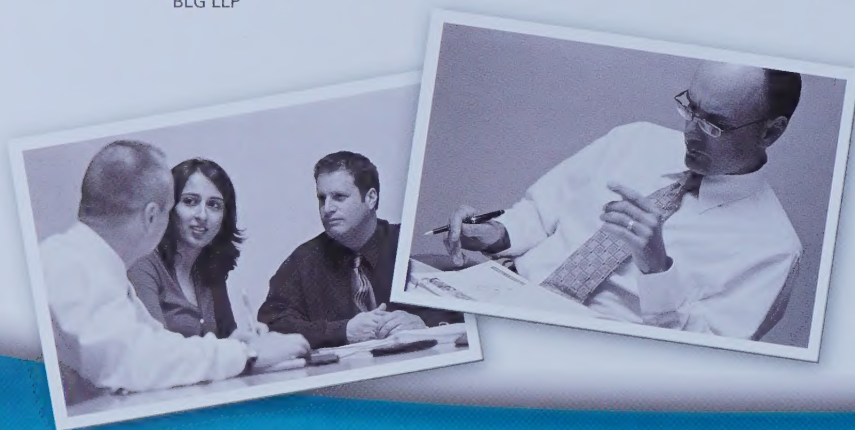
Investor Relations

ROBERT GROOM

5500 PARKWOOD WAY
RICHMOND, BC, V6V 2M4
TEL: 604-270-1108
FAX: 604-270-4168

INVESTORRELATIONS@BOSTONPIZZA.COM

WWW.BPINCOMEFUND.COM



Unitholder Information Boston Pizza International Inc.

Corporate Head Office

5500 PARKWOOD WAY
RICHMOND, BC, V6V 2M4

Eastern Office

SUITE 708 - 1 CITY CENTRE DRIVE
MISSISSAUGA, ONTARIO, L5B 1M2

Quebec Office

3030 BOULEVARD LE CARREFOUR, BUREAU 802
LAVAL, QUÉBEC, H7P 2P5

WWW.BOSTONPIZZA.COM

Management Team

JIM TRELVING

Chairman & Owner

GEORGE MELVILLE

Chairman & Owner

MIKE CORDOBA

Chief Executive Officer

MARK POWELL

Chief Financial Officer

MARK PACINDA

President

AL CAVE

Executive Vice-President - Corporate Services

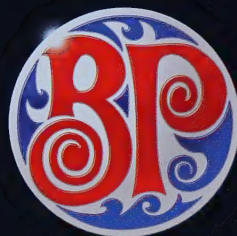
DOUG MACDONALD

Executive Vice-President - Western Canada

WAYNE SHANAHAN

Executive Vice-President - Quebec





The Boston Pizza International Inc.
Corporate Mission Statement

**TO BE A WORLD CLASS FRANCHISOR THROUGH SELECTING AND TRAINING PEOPLE
TO PROFITABLY MANAGE AN OUTSTANDING FOODSERVICE BUSINESS.**

TO ACHIEVE THIS GOAL WE ARE INNOVATIVE AND RESPONSIVE
IN OUR APPROACH IN BUSINESS. WE WORK AS A TEAM PROVIDING ATTENTION TO DETAIL BUT
NEVER LOSING SIGHT OF THE LARGER PICTURE. WE RECOGNIZE THE NEED TO PROVIDE LEADERSHIP
IN ALL AREAS OF THE OPERATIONS, MARKETING AND RESTAURANT DEVELOPMENT.



ROYALTIES INCOME FUND

www.bpincomefund.com

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